

92-2262

A	ALLOY COMPUTER PRODUCTS INC	10Q	03-31-92
B	BENNETT PETROLEUM CORP	10Q	05-31-92
C	BWP HOLDING INC	10Q	03-31-92
D	CAPITOL RESOURCES INC	10Q	12-31-91
E	COMPUTER AUTOMATION INC	10Q	03-31-92
F	DAVEY TREE EXPERT CO	10Q	03-28-92
G	DISTINCTIVE DEVICES INC	10Q	05-31-92
H	EXCALIBUR HOLDING CORP	QA	03-31-92
I	GTECH CORP	10Q	05-30-92
J	HOME HOLDINGS INC	10Q	05-31-92
K	ITT HARTFORD GROUP INC	10Q	03-31-92
L	BALDWIN PIANO & ORGAN CO	10Q	03-31-92
M	MEDISCIENCE TECHNOLOGY CORP	10Q	05-31-92
N	MIDLAND ENTERPRISES INC	10Q	03-31-92
O	MIDSOUTH CORP	10Q	03-31-92
P	SCOTT & STRINGFELLOW FINANCIAL INC	10Q	03-27-92
Q	SIERRA TAHOE BANCORP	10Q	03-31-92
R	RCM TECHNOLOGIES INC	10Q	04-30-92

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Exhibit Index
at Page 9

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

A
92-2262 92 14 8510

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended.....March 31, 1992.....

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from.....to.....

Commission file number 0-14748.....

Alloy Computer Products, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

04-2807692

(State or other jurisdiction of
incorporation or organization)

(I.R. S. Employer
Identification No.)

1 Brigham Street, Marlborough, MA
01752

(Address of principal executive offices)

(Zip Code)
(508) 481-8500

(Registrant's telephone number, including area code)

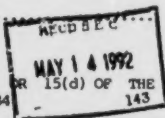
(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has
all reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the registrant was required to
file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes..X.. No.....

Indicate the number of shares outstanding of each of the
issuer's classes of common stock, as of the latest practicable date.

Class Outstanding at May 11, 1992
Common stock, par value \$.01 per share 5,806,450 Shares



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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

ALLOY COMPUTER PRODUCTS, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In Thousands)

ASSETS	MARCH 31, 1992 (Unaudited)	DECEMBER 31, 1991 (Audited)
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS.....	\$ 134	\$ 71
ACCOUNTS RECEIVABLE (LESS ALLOWANCES FOR DOUBTFUL ACCOUNTS AND SALES RETURNS OF \$407 IN 1992 AND \$410 IN 1991, ...	1,252	1,541
INVENTORY (NOTE 1)	1,202	1,695
INCOME TAX RECEIVABLE.....	73	79
PREPAID EXPENSES AND OTHER ASSETS	46	101
TOTAL CURRENT ASSETS	2,707	3,487
PROPERTY & EQUIPMENT (LESS ACCUMULATED DEPRECIATION OF \$6,000 IN 1992 AND \$5,812 IN 1991)	524	718
OTHER ASSETS (NOTE 3)	365	371
TOTAL	\$ 3,596	\$ 4,576
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 4,693	\$ 4,963
SHORT-TERM NOTES PAYABLE.....	129	279
ACCRUED WARRANTY.....	264	268
REVOLVING LOAN.....	214	295
ACCRUED COMPENSATION AND RELATED TAXES	276	213
TOTAL CURRENT LIABILITIES	5,577	6,018
OTHER LONG TERM LIABILITIES.....	546	546
TOTAL LONG TERM LIABILITIES.....	546	546
	=====	=====
STOCKHOLDERS' EQUITY		
COMMON STOCK	58	58
ADDITIONAL PAID-IN CAPITAL	10,151	10,151
RETAINED EARNINGS	(12,739)	(12,171)
CUMULATIVE TRANSLATION ADJUSTMENT	187	158
TREASURY STOCK ,AT COST (20,745 SHARES).....	(184)	(184)
STOCKHOLDERS' EQUITY	(2,527)	(1,988)
TOTAL	\$ 3,596	\$ 4,576
	=====	=====

SEE NOTES TO CONSOLIDATED STATEMENTS

ALLOY COMPUTER PRODUCTS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)
 (In Thousands, Except Per Share Data)

	THREE MONTHS ENDED MARCH 31,	
	1992	1991
NET SALES.....	2,823	4,972
COSTS AND EXPENSES:		
COSTS OF SALES.....	1,830	2,956
RESEARCH AND DEVELOPMENT.....	207	369
SELLING, GENERAL AND ADMINISTRATIVE.....	1,312	2,090
TOTAL.....	3,349	5,415
OPERATING LOSS.....	(526)	(443)
INTEREST INCOME.....	0	4
INTEREST EXPENSE	(40)	(40)
LOSS BEFORE INCOME TAXES	(566)	(479)
PROVISION FOR (BENEFIT FROM) INCOME TAXES.....	0	0
NET LOSS.....	\$ (566)	\$ (479)
LOSS PER SHARE (NOTE 2).....	\$ (0.10)	\$ (0.08)
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUT- STANDING (NOTE 2).....	5,777	5,753

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALLOY COMPUTER PRODUCTS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (In Thousands)

	THREE MONTHS ENDED MARCH 31	
	1992	1991
CASH FLOW FROM OPERATING ACTIVITIES:		
NET LOSS.....	\$ (566)	\$ (479)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATIONS:		
DEPRECIATION AND AMORTIZATION.....	241	263
CHANGES IN ASSETS AND LIABILITIES:		
ACCOUNTS RECEIVABLE.....	289	(10)
INVENTORY.....	493	287
INCOME TAX RECEIVABLE.....	6	14
PREPAID EXPENSES AND OTHER ASSETS.....	55	(197)
ACCOUNTS PAYABLE AND ACCRUED EXPENSES.....	(211)	118
OTHER ASSETS	(43)	58
NET CASH USED IN OPERATING ACTIVITIES:		
	264	54
CASH FLOWS FROM INVESTING ACTIVITIES:		
ACQUISITIONS OF PROPERTY AND EQUIPMENT.....	0	(26)
NET CASH USED IN INVESTING ACTIVITIES:		
	0	(26)
CASH FLOWS FROM FINANCING ACTIVITIES:		
REPAYMENTS OF LINE OF CREDIT.....	0	(2)
PROCEEDS FROM (REPAYMENTS TO) REVOLVING NOTE.....	(80)	52
REPAYMENT OF SUBORDINATED DEBT.....	(150)	(30)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
	(230)	20
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	29	(235)
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	63	(187)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	71	391
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 134	\$ 204

In the opinion of Management, the accompanying condensed consolidated financial statements include all adjustments and normal recurring accruals necessary to present fairly the financial position, results of operations and changes in financial position. It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 1991.

1. Inventory --

Inventories consist of the following, (in thousands) :

	March 31, 1992	March 31, 1991
Raw materials	\$ 142	\$ 189
Work in process	192	432
Finished goods	868	1,074
	<u>\$ 1,202</u>	<u>\$ 1,695</u>
	=====	=====

2. Earnings per share --

Earnings per share have been computed based on the weighted average number of common and common equivalent shares outstanding. Common equivalent shares include dilutive stock options. Loss per share data are based upon the weighted average number of common shares outstanding. The shares used for the calculation of the three months ended March 31, 1992 and 1991 are 5,777,007 shares and 5,752,537 shares, respectively.

3. Capitalization of software costs --

The Company applies Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" with respect to certain costs incurred to develop its major software products. Software costs of \$64,256 were capitalized for the three months ended March 31, 1992. At March 31, 1992 and March 31, 1991, \$291,330 and \$265,886 respectively of unamortized costs were included in other assets.

4. Supplemental Cash Flow Information

Interest payments made during the first quarter 1992 include approximately \$16 thousand to Ambassador Factors for interest due on the revolving line of credit and approximately \$6 thousand to several commercial vendors holding short term notes with average interest rates of 8%. Interest of approximately \$15 thousand was accrued, but not paid, on a note payable to Bessemer Venture Partners. This note carries an interest rate of 10% per annum.

ITEM 2. Managements Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Net sales for the first quarter of 1992 were \$2.8 million, down approximately 43% from approximately \$5.0 million for the same quarter of 1991. Sales of the Company's older PC-Slave family of products declined by approximately 58.3% from sales levels achieved in the same period of 1991. This is attributable to a decrease in demand from major customers as these products are now sold primarily into prior installations. Sales of EarthStation and Storage products for the three month period ended March 31, 1992 decreased by approximately 83.2% and 58.1% from first Quarter 1991 levels, respectively. The decline in Earthstations was due in large part to technological obsolescence. Storage sales were negatively affected by competitive pressure on the low end 125MB tape products. Sales of the higher capacity tape subsystems was not sufficient enough to offset this decline. 386/Multiware sales decreased by 15% from the sales volume achieved in the same period of 1991. During the first quarter of 1991 PC-Slave products contributed 21.7% of total sales with 386/Multiware, EarthStations, Storage, and Service contributing 36.0%, 13.2%, 19.7% and 9.4% respectively. The Company's gross margin of 35.2% for the quarter ended March 30, 1992 was down from 40.5% for the same period of 1991. The gross margin decrease was due to decreased sales volume and a reduction in unit price. Research and development costs for the three month period ended March 31, 1992 were approximately \$207 thousand, a 44% decrease from the same period of 1991. This decrease is attributed to a reduction in expenditures associated with the older, non-competitive product lines. The Company continues to concentrate R&D efforts on its software products, including new product development in the local area network market. This realignment of the development efforts allowed for reductions in headcount and purchases of R&D materials.

Selling, general and administrative expenses for the first quarter of 1992 were approximately \$1.3 million, a 37.2% decrease from the same period of 1991. The majority of this decrease is attributed to reductions in wage and facility expenses.

As a result of all of the above factors the Company posted an operating loss of approximately \$566 thousand for the first quarter of 1992, compared to an operating loss of approximately \$479 thousand for the same period of 1991.

No tax loss carryback benefits were allowed for the three month periods ended March 31, 1992 and 1991. This is a result of the Company reaching its maximum carryback benefit in 1989. Net loss for the first quarter of 1992 was \$566 thousand or \$.10 per share compared to \$ 479 thousand or \$.08 per share for the same period of 1991.

LIQUIDITY AND SOURCES OF CAPITAL

Cash increased by approximately \$63 thousand during the first three months of 1991. Operating losses were partially offset by decreases in inventory and accounts receivable, and increases in accounts payable. Borrowings under the receivables line of credit, which was extended until May 9, 1993, decreased slightly, and were \$214 thousand at quarter end. This represents the maximum availability under the borrowing agreement.

The Company has been actively managing its cash expenditures, including the timing of inventory purchases and payments on accounts payable, to coincide with cash available through its credit facility. Despite borrowing to the maximum available, the Company has been delinquent with certain creditors. Management believes that the Company's ability to continue existing operations in the near term will depend on the continued forbearance of creditors, and the Company's ability to continue to negotiate with vendors and reduce cash requirements while continuing development efforts on its new LAN network products. Management further believes that in the longer term the Company's existing operations are not likely to be viable unless a strategic alliance is formed with a third party organization.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports

(a) The following exhibit is filed as part of this report:

11. Statement re Computation of Per Share Earnings.
(Page 9.)

(b) The Company did not file any reports on Form 8-K during the quarter for which this report is being filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: 5/13/92

by 
Herbert Shanzer
Chief Executive Officer
and
Chairman of the Board

Alloy Computer Products, Inc.

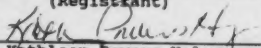
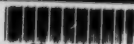
(Registrant)
by 
Kathleen Powers Haley
Chief Accounting Officer
and
Secretary

EXHIBIT 11

ALLOY COMPUTER PRODUCTS, INC. AND SUBSIDIARIES
 SCHEDULE OF COMPUTATION OF EARNINGS PER SHARE
 (UNAUDITED)
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

THREE MONTHS ENDED MARCH 31, 1992		
	1992	1991
NET LOSS.....	\$ (566)	\$ (479)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING.....	5,777	5,753
COMMON EQUIVALENTS.....	0	0
TOTAL WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING.....	5,777	5,753
LOSS PER COMMON SHARE.....	(\$0.10)	(\$0.08)

NOTE - FULLY DILUTED LOSS PER SHARE IS NOT PRESENTED SINCE THE
 EFFECT OF USING ENDING MARKET PRICES IN THE COMPUTATION IS LESS THAN 3%.



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92-2262 13UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549O 1116
Q 35035FORM 10-QQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934For the quarterly period ended May 31, 1992
Commission File No. 0-8100**BENNETT PETROLEUM CORPORATION**

(Exact name of registrant as specified in its charter) 166

Colorado
(State or other jurisdiction of
incorporation or organization)84-0620967
(I.R.S. Employer
Identification NO.)1580 Lincoln Street, Suite 630, Denver, CO 80203
(Address of principal executive offices and Zip Code)(303) 832-1555
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes X No

As of June 30, 1992, there were 31,665,674 shares of Common Stock, par value \$.01 per share, outstanding.

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BENNETT PETROLEUM CORPORATION

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BENNETT PETROLEUM CORPORATION

Balance Sheets

	May 31, 1992 (Unaudited)	August 31, 1991
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 4,583	\$243,234
Accounts receivable, with no allowance considered necessary	<u>37,234</u>	<u>71,136</u>
Total current assets	<u>41,817</u>	<u>314,370</u>
Property and equipment, at cost:		
Oil and gas properties (successful efforts method):		
Unproved properties	259,135	319,135
Drilling in progress	-	150
Proved properties	271,958	335,415
Accumulated depletion, depreciation and impairment	<u>(147,423)</u>	<u>(282,153)</u>
	383,670	372,547
Other property and equipment	64,248	75,642
Accumulated depreciation	<u>(38,636)</u>	<u>(37,655)</u>
	409,282	410,534
Other assets, net	<u>5,871</u>	<u>3,371</u>
	<u>\$456,970</u>	<u>\$728,275</u>

See accompanying notes to financial statements.

BENNETT PETROLEUM CORPORATION

Balance Sheets (Continued)

	May 31, 1992 (Unaudited)	August 31, 1991
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$195,217	\$ 7,883
Oil and gas sales payable	-	276
Current portion of notes payable	14,654	106,080
Advances from participants	-	80,351
Due to related parties	<u>10,679</u>	<u>110,595</u>
Total current liabilities	220,550	305,185
Notes Payable	-	13,035
Deferred liability	<u>8,705</u>	<u>34,820</u>
	<u>229,255</u>	<u>353,040</u>
Stockholders' equity:		
Common stock, par value \$.01.		
Authorized 50,000,000 shares;		
issued and outstanding		
31,665,674 shares	316,657	316,657
Additional paid-in capital	897,752	897,752
Accumulated deficit	<u>(979,600)</u>	<u>(832,080)</u>
	234,809	382,329
Treasury stock, at cost	<u>(7,094)</u>	<u>(7,094)</u>
	227,715	375,235
	<u>\$456,970</u>	<u>\$728,275</u>

See accompanying notes to financial statements.

BENNETT PETROLEUM CORPORATION
Statements of Operations
(Unaudited)

	Nine Months Ended May 31,		Three Months Ended May 31,	
	1992	1991	1992	1991
Operating revenues:				
Oil and gas sales	\$ 285,634	\$ 651,069	\$103,672	\$151,558
Gain on sale of properties	(58,793)	357,681	-	8,364
Operating fees	15,221	47,124	-	7,613
Other	<u>26,115</u>	<u>26,115</u>	<u>8,705</u>	<u>8,705</u>
	<u>268,177</u>	<u>1,081,989</u>	<u>115,377</u>	<u>176,240</u>
Operating expenses:				
Oil and gas production	60,378	308,958	19,307	81,285
Dry holes, abandonments, delay rentals and other exploration costs	65,203	411,744	4,327	27,748
Depreciation and depletion	14,580	49,865	4,796	18,452
General and administrative	<u>271,108</u>	<u>275,351</u>	<u>77,341</u>	<u>64,526</u>
	<u>411,269</u>	<u>1,045,918</u>	<u>105,771</u>	<u>192,011</u>
Income (Loss) from operations	(143,092)	<u>36,071</u>	<u>9,606</u>	<u>(15,771)</u>
Other income (expense):				
Interest income	2,369	10,933	66	884
Interest expense	(8,222)	(28,457)	(1,910)	(9,949)
Other	<u>1,425</u>	<u>4,627</u>	<u>11</u>	<u>1,499</u>
	<u>(4,428)</u>	<u>(12,897)</u>	<u>(1,833)</u>	<u>(7,566)</u>
Income (Loss) before pro- vision for income taxes and extraordinary credit	(147,520)	23,174	7,773	(23,337)
Provision for income taxes	-	<u>7,879</u>	-	-
Income (Loss) before extraordinary credit	(147,520)	15,295	7,773	(23,337)
Utilization of tax loss carry forward	-	<u>7,879</u>	-	-
Net income (loss)	<u>\$(147,520)</u>	<u>\$ 23,174</u>	<u>\$ 7,773</u>	<u>\$(23,337)</u>
Net income (loss) per share before extraordinary credit	\$(.01)	\$.00	\$.00	\$(.01)
Net income (loss) per share	\$(.01)	\$.00	\$.00	\$(.01)
Weighted average shares outstanding	31,665,674	31,665,674	31,665,674	31,665,674

See accompanying notes to financial statements.

BENNETT PETROLEUM CORPORATION

Statements of Cash Flows

For the Nine Months Ended May 31, 1992 and 1991
(Unaudited)

	<u>1992</u>	<u>1991</u>
Cash flows from operations:		
Cash received from the sale of oil and gas	\$302,653	\$602,691
Cash paid to suppliers and employees	(353,883)	(785,699)
Net increase (decrease) in drilling advances	(80,351)	158,169
Interest and other received	19,015	62,684
Interest and other paid	(8,222)	(28,457)
Net cash used in operating activities	<u>(120,788)</u>	<u>9,388</u>
Cash flows from investing activities:		
Lease acquisitions	-	(232,901)
Drilling and dry hole costs	(21,815)	(47,247)
Additions to proved properties	(6,337)	(179,885)
Cash received from the sale of properties	14,750	394,902
Additions to other property and equipment	-	(7,194)
Net cash used in investing activities	<u>(13,402)</u>	<u>(72,325)</u>
Cash flows from financing activities:		
Borrowings	-	300,000
Repayment of debt	(104,461)	(159,500)
Net cash provided by (used in) financing activities	<u>(104,461)</u>	<u>140,500</u>
Net increase (decrease) in cash	(238,651)	77,563
Cash and cash equivalents at beginning of period	243,234	43,596
Cash and cash equivalents at end of period	<u>\$ 4,583</u>	<u>\$121,159</u>

See accompanying notes to financial statements.

BENNETT PETROLEUM CORPORATION

Statements of Cash Flows (Continued) For the Nine Months Ended May 31, 1992 and 1991 (Unaudited)

	<u>1992</u>	<u>1991</u>
Reconciliation of net income to net cash used in operating activities:		
Net income (loss)	\$(147,520)	\$(23,337)
Adjustments:		
Decrease (increase) in accounts receivable	33,902	59,334
Loss (gain) on sale of properties	58,793	(357,681)
Property abandonments	18,938	355,709
Loss on sale of vehicle	5,235	-
Reduction in liability	(26,115)	(26,115)
Depreciation, depletion and impairments	14,580	49,865
Increase in other assets	(2,500)	(5,705)
Increase (decrease) in accounts payable (excluding \$82,892 of additions to producing properties in 1992)	104,442	(167,386)
Increase (decrease) in oil and gas sales payable	(276)	(16,501)
Increase (decrease) in advances from participants	(80,351)	158,169
Decrease in amounts due related parties	(99,916)	(16,964)
Net cash provided from (used in) operating activities	<u>\$(120,788)</u>	<u>\$ 9,388</u>

See accompanying notes to financial statements.

BENNETT PETROLEUM CORPORATION

Notes to Financial Statements May 31, 1992 (Unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying financial statements of Bennett Petroleum Corporation (the "Company") contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the financial position of the Company as of May 31, 1992 and August 31, 1991, the results of its operations for the nine months ended May 31, 1992 and 1991 and the three months ended May 31, 1992 and 1991 and the cash flows for the nine months ended May 31, 1992 and 1991.

Certain information normally included in financial statements prepared in accordance with generally accepted accounting principles has been omitted pursuant to Securities and Exchange Commission rules and regulations.

(2) Conversion of Preferred Stock

On April 12, 1991 at the Company's Annual Shareholders' Meeting, the shareholders voted to convert each outstanding share of Class A and Class B Preferred Stock into two shares of Common Stock effective April 30, 1991. The conversion was accounted for by increasing stated capital by \$54,199 for the additional Common Stock that was issued, and by decreasing additional paid-in capital by an equal amount. Although the books reflect a complete conversion, not all Preferred shares had been physically converted at May 31, 1992.

(3) Note Payable to Bank

During September 1990, the Company obtained a \$300,000, two-year installment loan collateralized by its primary producing property and guaranteed by an officer and director of the Company. The agreement calls for monthly payments of \$12,500 plus interest at an annual rate of prime plus 2%, 8.5% at June 30, 1992. In addition to the monthly principal installments, the bank is to receive additional principal payments equal to 25% of all oil revenue from the secured property exceeding \$20,000 in any given month. The final installment payment on this loan was paid in June, 1992.

(4) Loss on Sale of Properties

During November 1991, the Company sold two marginal producing properties for \$14,750, and booked a combined loss of \$58,793 on the two transactions.

BENNETT PETROLEUM CORPORATION

Notes to Financial Statements

May 31, 1992

(Unaudited - Continued)

(5) Exploration Costs

During October 1991, the Company drilled a dry hole in Illinois in which it owned a 60% working interest. Drilling and leasehold costs relating to this abandoned prospect totaled \$20,840. Other exploration costs expended in fiscal 1992 consisted of consulting and travel relating to the evaluation of several exploration prospects that were not acquired. In December 1991, substantially all exploration activities were suspended in anticipation of the proposed merger (see Note 6 below).

(6) The Merger

On December 23, 1991, the Company signed a letter of intent to be acquired by Abraxas Petroleum Corporation, a San Antonio based oil and gas exploration and production company ("Abraxas"). As consideration for the merger, the existing shareholders of the Company would receive aggregate consideration consisting of approximately \$900,000 in cash and up to 186,000 shares of Abraxas common stock. It is anticipated that a special meeting of shareholders will be held in July to vote on the proposed merger.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Having used a significant portion of the proceeds from sales of certain of its oil and gas interests at the end of fiscal 1991 to retire much of its bank debt and obligations to its president and principal shareholder, the Company had no material commitments for debt service at May 31 1992, other than obligations incurred in the ordinary course of business and in negotiations for and effectuation of the merger agreement with Abraxas Petroleum. The Company is obligated to pay its share of a waterflood project which has been undertaken on its principal producing property, the Happy Field in Texas. The Company has reached an agreement with the operator of that property to pay its share of the project, an aggregate of approximately \$167,000, out of production, rather than in advance as is common in the industry.

The Company's principal capital commitment for fiscal 1992 is for salaries and expenses related to the Abraxas merger. Fixed expenses for delay rentals have been reduced to almost zero as the Company is allowing leases covering its undeveloped acreage in California to expire, and delay rentals for other such acreage have been paid in advance.

Time spent in effectuating the Abraxas merger has reduced the Company's promotional activities. The Company is not now actively promoting its two remaining undeveloped properties and is spending substantially less time attempting to find properties of others to promote. No contracts or agreements to sell all or part of the Company's remaining undeveloped prospects are pending or in negotiation. The Company will consider proposals to sell or develop these properties.

At May 31, 1992, the Company had a working capital deficit of \$178,747, a significant increase in the deficit of \$9185 at the end of the third fiscal quarter in 1991. The largest component of the deficit at May 31, 1992, are accounts payable of \$195,217, due to the reduced income from its oil and gas properties, costs incurred in negotiating and effectuating the Abraxas merger agreement, and costs of the waterflood project on the Happy Field in Texas. While current liabilities have been reduced by nearly \$85,000 from May 31, 1991 to the same date in 1992, principally as a result of the payment of bank loans and debts to affiliates, those payments and overhead expenses reduced cash on hand by near \$240,000.

Upon approval and effectuation of the merger with Abraxas, which management anticipates in view of the intended favorable vote by its majority shareholder, the Company's liabilities will be assumed by Abraxas. As such, the Company has not investigated external sources of liquidity, and none are currently available.

Results of Operations

Results of Operations

For the nine months ended May 31, 1991, the Company generated income (before an extraordinary credit for tax loss carry-forward) of \$15,295, as compared to a net loss for the same period in fiscal 1992 of \$147,520. For the three-month period ended May 31, 1992, however, the Company posted net income of \$7,773 as compared to a net loss of \$23,337 for the same period in fiscal 1991. Total revenues for the nine months ended May 31, 1992 decreased \$813,812 from the revenues generated during the same period in fiscal 1991, primarily due to a 44% decrease in oil and gas sales and a \$58,793 loss on property sales in 1992 compared to a \$357,681 gain in 1991.

The decrease in oil and gas revenue was due to the sale of approximately fifty producing wells in Crockett County, Texas at the end of fiscal 1991, and to the significant decrease in the price of oil and in quantities sold during the first nine months of fiscal 1992 compared to the price and quantities sold during last year's Persian Gulf crisis. The sale of the Company's Crockett County wells also resulted in an 81% reduction in production expenses. Oil and gas sales accounted for 87% of total revenue for the first nine months of fiscal 1992 (exclusive of the loss on property sales) as compared to 60% for the same period in fiscal 1991.

The waterflood facility on the Happy Field was completed during the third quarter of fiscal 1992, and water is currently being injected into the wells. The successful completion of this facility was the final requirement of the Texas Railroad Commission for increasing the field's allowable production. When water injection began in April, 1992, the field's allowable production rate was increased. Substantially all of the Company's oil and gas revenues during fiscal 1992 will be attributable to the Happy Field.

The \$357,681 gain on property sales for the first nine months of fiscal 1991 was generated through the sale of undeveloped prospects while the \$58,793 in losses for the same period in 1992 resulted from the sale of marginally producing properties. Generally, the gains represent the price paid by co-venture partners for interests in certain properties over the Company's acquisition costs. The Company's decrease in prospect generation, acquisition and promotional activities resulted in a \$346,541 (84%) decrease in exploration costs during the nine-month period ended May 31, 1992, compared to such costs incurred during the same period in fiscal 1991. Exploration costs all are nonrecurring discretionary expenditures which are incurred based on the availability of funds.

Operating fees decreased from \$37,124 for the first nine months of fiscal 1991 to \$15,421 for the same period in fiscal 1992 due to a reduction in the Company's drilling activity and to termination of the Company's role as operator of the Happy Field. The \$26,115 of other income in the first nine months of both 1991

and 1992 resulted from changes in estimates of the potential liability which the Company has carried on its books for more than five years and which, by this time, is increasingly unlikely of assertion.

The \$48,580 (80%) decrease in production expense in the first nine months of 1992 is directly related to the sale at the end of fiscal 1991, of the Company's interests in approximately fifty producing wells in Crockett County, Texas. That sale caused depreciation, depletion, and impairment expenses to decrease by \$35,285 (71%) for the first three fiscal quarters of 1992.

General and administrative expense experienced a nominal decrease because, although the Company's oil and gas activities decreased, nonrecurring expenses from the Abraxas merger caused an increase in legal and accounting costs and travel expenses.

Use of the Company's cash reserves to pay down debt obligations caused a decrease in both interest income and interest expense for the first nine months of fiscal 1992.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not aware of any material legal proceedings involving either the Company or any officer, director, affiliate or control person as a party adverse to the Company or its properties either commenced or proceeding during the three months ended May 31, 1992.

Item 2. Changes in Securities

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On December 23, 1991, the Company signed a letter of intent to be acquired by Abraxas Petroleum Corporation, a San Antonio-based oil and gas exploration and production company. As consideration for the merger, the existing shareholders of Bennett will receive aggregate consideration consisting of approximately \$900,000 in cash and up to 186,000 shares of Abraxas common stock, par value \$.01 per share. The Registration Statement on Form S-4 filed by Abraxas with the Securities and Exchange Commission was

declared effective on July 8, 1992, and a special meeting of the Company's shareholders will be held the last week of July to vote on the proposed merger.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirement of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BENNETT PETROLEUM CORPORATION
(Registrant)

Date: July 16, 1992


By: Richard L. Bennett, President,
Chairman of the Board, Director,
Chief Executive Officer and
Chief Financial Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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(Mark One)

FORM 10-Q

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- ☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992

OR

- ☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-19162

EWIP HOLDING, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0270574
(I.R.S. Employer
Identification No.)

200 Oseangate Boulevard
Suite 900
Long Beach, California
(Address of principal executive offices)

90802
(Zip Code)

Registrant's telephone number, including area code: (310) 435-3700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock, \$.01 par value,
outstanding at March 31, 1992

24,275,000

Microfilmed by

Q-Data Corp. - St. Petersburg, FL

Class B Common Stock, \$.01 par value,
outstanding at March 31, 1992

None
(shares)

Total Pages-1

Page 1 of 1

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BMP HOLDING, INC.

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(Unaudited)

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BWIP HOLDING, INC.
Condensed Consolidated Balance Sheets
(In thousands)

<u>Assets</u>	March 31, <u>1992</u> (Unaudited)	December 31, <u>1991</u>
Current assets:		
Cash and cash equivalents	\$ 14,235	\$ 20,511
Accounts and notes receivable (less allowance for doubtful accounts of \$2,850 at March 31, 1992 and \$2,813 at December 31, 1991)	87,880	83,107
Inventories	64,135	70,281
Other current assets	<u>14,031</u>	<u>5,168</u>
Total current assets	180,281	179,067
Property, plant and equipment, at cost (net of accumulated depreciation and amortization of \$43,735 at March 31, 1992 and \$41,956 at December 31, 1991)	104,038	105,752
Goodwill (net of accumulated amortization of \$4,499 at March 31, 1992 and \$4,264 at December 31, 1991)	34,028	35,196
Other assets	<u>12,830</u>	<u>11,666</u>
Total assets	<u>\$331,177</u>	<u>\$331,681</u>

See accompanying notes to condensed consolidated financial statements.

BWIP HOLDING, INC.
Condensed Consolidated Balance Sheets
(In thousands)

	March 31, <u>1992</u> (Unaudited)	December 31, <u>1991</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 28,295	\$ 30,988
Current maturities of long-term debt	1,598	1,507
Other current liabilities	<u>41,215</u>	<u>36,922</u>
Total current liabilities	71,108	69,417
Long-term debt, excluding current maturities	89,754	100,011
Other long-term liabilities	25,326	22,522
Stockholders' equity:		
Preferred stock	-	-
Common stock	245	245
Paid-in capital	85,763	85,763
Retained earnings	57,783	47,531
Cumulative translation adjustment	<u>1,811</u>	<u>6,805</u>
	145,602	140,344
Less common stock in treasury, at cost	<u>(613)</u>	<u>(613)</u>
Total stockholders' equity	144,989	139,731
Total liabilities and stockholders' equity	<u>\$331,177</u>	<u>\$331,681</u>

See accompanying notes to condensed consolidated financial statements.

BWIP HOLDING, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
(Dollar amounts in thousands except share data)

	Three Months March 31, 1992	Ended March 31, 1991
Net sales	\$114,416	\$104,530
Cost of sales	<u>67,127</u>	<u>58,915</u>
Gross profit	47,289	45,615
Selling, administrative and operating expenses	<u>25,003</u>	<u>23,783</u>
Operating income	22,286	21,832
Interest expense, net	3,334	4,755
Other expenses (Note 6)	<u>655</u>	<u>-</u>
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	18,297	17,077
Provision for income taxes	<u>6,221</u>	<u>6,317</u>
Income before extraordinary item and cumulative effect of change in accounting principle	12,076	10,760
Extraordinary loss, net of tax (Note 6)	<u>(2,914)</u>	<u>-</u>
Income before cumulative effect of change in accounting principle	9,162	10,760
Cumulative effect of change in accounting for income taxes (Note 5)	<u>2,000</u>	<u>-</u>
Net income	<u>\$ 11,162</u>	<u>\$ 10,760</u>
Earnings per common share:		
Before extraordinary item and cumulative effect of change in accounting principle	\$ 0.50	\$ 0.53
Extraordinary loss	(0.12)	-
Cumulative effect of change in accounting for income taxes	<u>0.08</u>	<u>-</u>
Net income per common share	<u>\$ 0.46</u>	<u>\$ 0.53</u>
Weighted average number of common shares outstanding	<u>24,275,000</u>	<u>20,275,000</u>

See accompanying notes to condensed consolidated financial statements.

BNIP HOLDING, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three Months Ended March 31, <u>1992</u>	March 31, <u>1991</u>
Cash flows from (used in) operating activities	\$ 12,666	\$(14,564)
Cash flows from (used in) investing activities:		
Capital expenditures	(3,124)	(2,921)
Proceeds from disposition of property and equipment	<u>103</u>	<u>145</u>
Net cash (used in) investing activities	(3,021)	(2,776)
Cash flows from (used in) financing activities:		
Borrowings under credit agreements	8,500	23,156
Payments under credit agreements	(8,500)	(18,072)
Prepayment of 8.5% Junior Subordinated Notes	(14,201)	-
Dividends paid	(910)	-
Other	<u>-</u>	<u>9</u>
Net cash from (used in) financing activities	(15,111)	5,093
Effect of exchange rate changes on cash	<u>(810)</u>	<u>(420)</u>
Net decrease in cash and cash equivalents	(6,276)	(12,667)
Cash and cash equivalents at beginning of period	<u>20,511</u>	<u>18,089</u>
Cash and cash equivalents at end of period	<u>\$ 14,235</u>	<u>\$ 5,422</u>
Supplemental cash flow disclosures:		
Interest paid	\$ 1,106	\$ 1,873
Income taxes paid	3,132	6,455

See accompanying notes to condensed consolidated financial statements.

BWIP HOLDING, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Dollar amounts in thousands except per share data)

1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 1992 and the related condensed consolidated statements of operations and cash flows for the three months ended March 31, 1992 and 1991 are unaudited. In management's opinion, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such financial statements have been made.

The condensed financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X, and do not contain certain information included in the Company's annual financial statements and notes. Interim results are not necessarily indicative of results to be expected for a full year and are subject to audit and adjustment at the end of the year.

2. Organization

BWIP Holding, Inc. (Holding) was incorporated in March 1987 and acquired BW/IP International, Inc. (BW/IP), formerly Borg-Warner Industrial Products, Inc., on May 20, 1987. Holding conducted no business activity prior to the acquisition and substantially all of Holding's business activities are conducted through BW/IP and BW/IP's subsidiaries.

Unless the context otherwise requires, references herein to "the Company" are to Holding and BW/IP and its consolidated subsidiaries.

3. Inventories

Inventories consist of the following:

	March 31, <u>1992</u>	December 31, <u>1991</u>
Finished parts	\$34,328	\$33,720
Work in process	36,529	42,700
Raw materials and supplies	<u>7,932</u>	<u>9,997</u>
	78,789	86,417
Less progress billings	(14,654)	(16,136)
Net inventories	<u>\$64,135</u>	<u>\$70,281</u>

BWIP HOLDING, INC.
Notes to Condensed Financial Statements
(Unaudited)
(Dollar amounts in thousands except per share data)

4. Guarantee of Indebtedness and Restriction of Net Assets of Subsidiary

The Company's U.S. credit facility and certain other outstanding debt agreements (including the new debt facilities discussed in Note 7) restrict the payment of dividends by BW/IP to Holding (and thereby limit Holding's ability to pay dividends on its common stock) except in certain specific circumstances or unless certain financial tests are met. As of March 31, 1992, after giving effect to dividends declared to date, approximately \$8.1 million would have been available for the payment of dividends by BW/IP to Holding pursuant to the most restrictive covenants under both the Company's U.S. credit facility and certain other outstanding debt agreements.

Holding has also fully and unconditionally guaranteed BW/IP's subordinated indebtedness. Because Holding has virtually no operations and its principal asset consists of its investment in BW/IP, summarized financial information of BW/IP as of March 31, 1992 and December 31, 1991, and for the three months ended March 31, 1992 and 1991 is identical, in all material respects, to the condensed consolidated financial data of Holding presented within these statements.

5. Accounting Change - Income Taxes

Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). The new statement supersedes the Company's previous accounting practice of accounting for income taxes under Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS 96). Both statements require the use of the liability method of accounting for income taxes, but the recognition of deferred tax assets was limited under SFAS 96. Under SFAS 109, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The cumulative effect of adopting SFAS 109 resulted in the recognition of a \$2 million gain, or \$.08 per share.

EMIP HOLDING, INC.
Notes to Condensed Financial Statements
(Unaudited)
(Dollar amounts in thousands except per share data)

The primary components of temporary differences which give rise to the Company's net deferred tax liability, as restated effective January 1, 1992, are as follows:

Deferred tax assets:

Foreign tax credits	\$ 5,759
Warranty and other reserves	3,869
Inventories	3,318
Accrued liabilities	1,632
Foreign investment tax credits	1,000
Other	1,480
Valuation allowance	-
Total deferred tax asset	<u>17,058</u>

Deferred tax liabilities:

Unremitted earnings of foreign affiliates	8,182
Property, plant and equipment (excess book basis over tax basis)	8,077
Goodwill (the Netherlands)	1,779
Pension assets	<u>1,105</u>
Total deferred tax liability	<u>19,143</u>

Net deferred tax liability	<u>\$ 2,085</u>
----------------------------------	-----------------

The Company believes that the components of the provision for income taxes and the annual effective rate reconciliation will not vary significantly from that previously reported.

The provision for income taxes for the three months ended March 31, 1991 is included in the condensed consolidated statements of operations as previously presented.

6. Secondary Public Offering

On February 26, 1992, the Company completed a secondary public offering of 6,325,000 shares of its Class A common stock. All of the shares were sold by selling stockholders other than the Company. Subject to agreements with such selling stockholders, the Company was obligated to pay certain expenses related to the offering. Such expenses totaled approximately \$650 (\$453 after-tax, or \$.02 per share) and have been recorded in the other expenses line within the condensed consolidated statements of operations.

BWIP HOLDING, INC.
Notes to Condensed Financial Statements
(Unaudited)
(Dollar amounts in thousands except per share data)

As a result of the secondary offering, the Company was required to prepay the 8.5% Junior Subordinated Notes due Borg-Warner Corporation at a price equal to the \$14,201 principal amount thereof. Such prepayment was made from available funds and resulted in a reduction in long-term debt of approximately \$9.9 million and in the Company's incurring an extraordinary loss on this transaction equal to the unamortized discount on those notes as of the prepayment date, approximately \$4.2 million (\$2.9 million after-tax, or \$0.12 per share).

7. Subsequent Event

On May 4, 1992, the Company notified holders of its senior subordinated and subordinated debentures that the Company would redeem all such indebtedness on May 19, 1992. Such indebtedness includes \$61 million in face amount of 12.25% senior subordinated debentures that mature in 1997 and \$26 million in face amount of 12.75% subordinated debentures that mature in 1999. In order to effect the refinancing, on April 30, 1992 the Company issued in a private placement \$50 million of 7.92% senior notes that mature in 1999 (subject to mandatory prepayments beginning in 1994). Additionally, on May 4, 1992 the Company amended its U.S. credit facility to increase its credit line to \$100 million, a portion of which will be applied to effect the redemption. As a result of such redemption, the Company will incur an extraordinary loss of approximately \$7.7 million during the second quarter of 1992.

Item 2. Management's Discussion and Analysis of Financial Condition
and Results of Operations

Results of Operations

The following discussion and analysis relates to the Company on a consolidated basis and should be read in conjunction with the condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

For financial reporting purposes, the Company's operations are divided into two industry segments, the Pump/Seal Segment and the Fluid Controls Segment. For the three months ended March 31, 1992 and 1991, the Pump/Seal Segment accounted for 93.0% and 90.0%, respectively, of the Company's net sales.

Three Months Ended March 31, 1992
Compared to Three Months Ended March 31, 1991
(Dollars in Millions)

	1992			1991		
	Net Sales	Operating Income	Operating Income as a % of Total Net Sales	Net Sales	Operating Income	Operating Income as a % of Total Net Sales
Pump/Seal	\$106.4	\$22.3	21.0%	\$ 94.1	\$21.0	22.3%
Fluid Controls ..	8.0	-	-	10.4	0.8	7.7
The Company	114.4	22.3	19.5	104.5	21.8	20.9

Net sales of \$114.4 million for the three months ended March 31, 1992 were \$9.9 million, or 9.5%, higher than the corresponding period in 1991. The Pump/Seal Segment experienced an increase in net sales of \$12.3 million in the first quarter of 1992 over the comparable period in 1991, primarily due to strong sales in Europe for both pump and seal products. Net sales for the Fluid Controls Segment during the first quarter of 1992 were \$2.4 million lower than during the first quarter of 1991 primarily due to lower sales in the defense and flight controls portions of the business.

Operating income for the quarter ended March 31, 1992 was \$22.3 million, an increase of 2.1% over the comparable period in 1991. Operating income for the Pump/Seal Segment increased approximately 6% in the first three months of 1992 over the corresponding period in 1991 primarily due to increased volume and improved margins in Europe. Operating income did not increase proportionately with the increase in net sales due to a shift in product mix, primarily within the aftermarket portion of the business. In addition, operating income attributable to the Segment's Mexican operations was down during the first quarter of 1992 as compared to the first quarter of 1991. The Fluid Controls Segment had break-even results during the quarter ended March 31, 1992, down \$0.8 million from the corresponding period in 1991. The decrease was due to lower volume within the defense and flight controls portions of the business.

Contributing to the overall operating income increase was a decrease in the Company's selling, administrative and operating expenses as a percentage of net sales from 22.8% for the three months ended March 31, 1991 to 21.9% for the corresponding period in 1992. Included in the first quarter of 1992 are \$2.1 million of dividends received from the Company's Argentine affiliates. No dividends were received during 1991. Offsetting the dividends are increased costs associated with the Company's 401(K) and pension plans.

Interest expense was reduced by \$1.4 million for the three months ended March 31, 1992 as compared to the corresponding period in 1991 primarily because of lower levels of debt and lower interest rates.

The Company's effective tax rate decreased from 37.0% for the three months ended March 31, 1991 to 34.0% for the corresponding period in 1992. The lower rate reflects utilization of foreign tax credits in the United States. In addition, during the first quarter of 1992 the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The adoption contributed to the Company's lower effective tax rate for 1992 and resulted in a \$2.0 million gain (\$.08 per share) for the cumulative effect of the change.

On February 26, 1992, the Company completed a secondary public offering of 6,325,000 shares of its Class A common stock. All of the shares were sold by selling stockholders other than the Company. Subject to agreements with such selling stockholders, the Company was obligated to pay certain expenses related to the offering. Such expenses totaled approximately \$650 (\$453 after-tax, or \$.02 per share) and have been recorded in the other expenses line within the condensed consolidated statements of operations. In addition, the Company was required to prepay the 8.5% Junior Subordinated Notes due Borg-Warner Corporation (Borg-Warner) at a price equal to the \$14,201 principal amount thereof. Such prepayment resulted in a reduction in long-term debt of approximately \$9.9 million and in the Company's incurring an extraordinary loss on this transaction equal to the unamortized discount on those notes as of the prepayment date, approximately \$4.2 million (\$2.9 million after-tax, or \$.12 per share).

Order input for the three months ended March 31, 1992 was \$132.0 million compared with \$113.3 million for the corresponding period in 1991. Backlog at March 31, 1992 was \$223.6 million compared to \$231.3 million at March 31, 1991. While order input increased during the first quarter of 1992 for pump and seal products in both the United States and Europe, these increases were offset by a decrease in order input for the Fluid Controls Segment. Backlog at March 31, 1992 also reflects lower order input during the fourth quarter of 1991, specifically for the pump business in the United States and for the Pump/Seal Segment in Mexico.

The Company expects that its future operating margins will decline somewhat from the high levels that have been achieved in recent periods. Since early 1991, the Company has emphasized its OE business in selected markets. This strategy is designed to increase the Company's installed base of equipment, which in turn should generate future aftermarket sales. However, because of the lower margins typical of the OE business as compared to the aftermarket business, this change in product mix is expected to reduce overall operating margins. Despite this anticipated reduction, the Company does not expect the

planned increase in its OE business to have a material adverse effect on its net income. In addition, the Company's Mexican subsidiary is expected to continue experiencing a reduced level of sales and income through 1992. Government policy is holding back capital expenditures by PEMEX, the state-owned oil company, in order to control that country's inflation rate. The Mexican economy relies very heavily on the petroleum industry, and the Company believes this freeze on expenditures will not continue over the long term.

Military procurement programs are vulnerable to budget cutbacks and political shifts that could alter the demand for products of the Company's Fluid Controls Segment. The Company anticipates that there will be a reduced number of new programs of the type for which the Company supplies products.

Liquidity and Capital Resources

Cash flow from operations, credit available under its credit agreements and customer progress payments have been the Company's primary sources of short-term liquidity. During the three months ended March 31, 1992, the Company generated net funds from operating activities of \$12.7 million, an increase of \$27.2 million over the comparable period in 1991. The first quarter of 1991 reflected a significant increase in working capital, primarily accounts receivable. Also contributing to the 1992 improvement in operating cash flow was a reduction in income tax payments.

At March 31, 1992, the Company had letters of credit totalling \$13.7 million, but no other borrowings, outstanding under its credit agreements and had \$69.4 million available for borrowing under such agreements. As of March 31, 1992, the Company had outstanding \$25.8 million of obligations relating to performance bonds (\$3.7 million of which were supported by the outstanding letters of credit referred to above) of which approximately \$2.1 million were provided by Borg-Warner (the Company being obliged to repay Borg-Warner for any payment made thereunder).

On May 4, 1992, the Company notified holders of its senior subordinated and subordinated debentures that the Company would redeem all such indebtedness on May 19, 1992. Such indebtedness includes \$61 million in face amount of 12.25% senior subordinated debentures that mature in 1997 and \$26 million in face amount of 12.75% subordinated debentures that mature in 1999. In order to effect the refinancing, on April 30, 1992 the Company issued in a private placement \$50 million of 7.92% senior notes that mature in 1999 (subject to mandatory prepayments beginning in 1994). Additionally, on May 4, 1992 the Company amended its U.S. credit facility to increase its credit line to \$100 million, a portion of which will be applied to effect the redemption. As a result of such redemption, the Company will incur an extraordinary loss of approximately \$7.7 million during the second quarter of 1992.

All of the borrowings of BW/IP under its credit facilities are at floating interest rates, interest costs are therefore subject to significant changes depending upon the movement of short-term interest rates.

During the three months ended March 31, 1992, the Company spent approximately \$3.1 million on fixed assets, primarily for renewal and replacement and cost reduction machinery and service center expansion. The Company's 1992 capital expenditure budget is approximately \$15 million. These expenditures will be financed from operations and utilization of available credit facilities.

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - none

(b) There were no reports on Form 8-K filed during the quarter ended March 31, 1992.

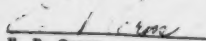
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BWP HOLDING, INC.

(Registrant)

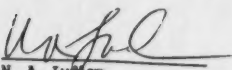
Date: May 14, 1992

By: 

E. P. Cross

Vice President - Finance
(Duly Authorized Officer)

Date: May 14, 1992

By: 

N. A. Luciani

(Chief Accounting Officer)



D
92-2262



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Q 35735

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGES ACT OF 1934

11

For the Quarter Ended
December 31, 1991

Commission File No. 0-2209

Capitol Resources, Inc.

(Exact name of registrant as specified in its charter)

Kentucky

61-0624259

(State or other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer Identifica-
tion Number)

134 Dixie Bldg. South Mayo Trail
Pikeville, Kentucky

41502-2728

(Address of Principal Executive
Offices)

(Zip Code)

Registrant's telephone number, including area code: (606) 437-7351

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, at the close of the period covered by this report:

Common stock
no par value

110,687
outstanding as of
December 31, 1991

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CAPITOL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	December 31, 1991	September 30, 1991
ASSETS		
Cash	938,771	845,476
Accounts receivable, trade	17,867	47,945
Accounts receivable, related party	198,922	
Accounts receivable, Columbia lawsuit	230,790	
Other	5,740	17,749
Total current assets	484,090	111,170
Plant and equipment net of accumulated depreciation of \$0 in December 1991, and \$1,819,644 in September 1991	0	1,232,343
Excess of cost over fair market value of assets acquired net of accumulated amortization of \$0 on December 31, 1991, and \$15,907 on September 30, 1991	0	85,509
Total assets	484,090	\$1,429,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	919,083	77,615
Accrued expenses	21,350	85,351
Current portion of long-term debt	0	485,637
Due affiliated company	0	485,190
Total current liabilities	41,233	973,793
Long-term debt	0	35,685
Total liabilities	41,233	1,009,478
Capital stock	302,485	302,485
Paid-in capital	1,155,598	1,155,598
Retained earnings	(922,616)	(955,929)
Treasury stock	(82,610)	(82,610)
Total stockholders' equity	442,857	419,544
Total liabilities and stockholders' equity	\$484,090	\$1,429,022

See accompanying notes.

CAPITAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	Three Months Ended December 31, 1991 -----	Three Months Ended December 31, 1990 -----
Revenues:		
Gas sales	\$347,593	\$272,504
Settlement award from Columbia Gas	230,790	
Other income	16,571	14,766
	-----	-----
Total revenue	594,954	287,270
Expenses:		
Purchased gas	314,051	103,214
Maintenance and operations expense	29,592	63,884
Depreciation and amortization	6,817	41,213
General and administrative expense	90,396	45,713
Interest expense	5,877	18,966
	-----	-----
Total expenses	446,733	272,990
	-----	-----
	148,221	14,280
Loss on the sale of substantially all of the assets of the company	(120,829)	
	-----	-----
Net income	927,392	\$14,280
	*****	*****
 Per share of common stock (Based on average shares outstanding of 110,687 and 111,311 for 1991 and 1990 respectively)		
 Net income (loss)	\$0.25	\$0.13
	*****	*****

See accompanying notes.

CAPITOL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31, 1991	Three Months Ended December 31, 1990
Cash flows from operating activities:		
Net income	\$148,221	\$14,280
Noncash items included in net income:		
Depreciation and amortization	6,817	41,213
Loss on sale of stock and assets	120,829	
Other adjustments	(5,623)	35,493
	-----	-----
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
(Increase) or decrease in receivables	(379,626)	32,089
Increase or (decrease) in payables	(526,922)	(26,707)
	-----	-----
Net cash provided (used) by operating activities	(636,304)	80,875
Cash flows from investing activities:		
Sale of fixed assets	913,000	
Sale of Public Gas Company	162,000	

Net cash provided (used) by investing activities	1,075,000	0
Cash flows from financing activities:		
Acquisition of outstanding shares	(4,079)	
Repayment of long term debt	(441,322)	(66,117)
Increase in deferred income taxes	0	4,250
	-----	-----
Net cash provided (used) by financing activities	(445,401)	(61,867)
	-----	-----
Net increase (decrease) in cash	(6,705)	19,000
Cash at beginning of three months period	45,476	31,122
	-----	-----
Cash at end of three months period	38,771	50,130
	*****	*****

See accompanying notes.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Changes in common stock, additional paid-in capital, retained earnings (deficit) and treasury stock for the three months ended December 31, 1991 were as follows:

	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Treasury Stock</u>
Balance 9/30/91	\$302,485	\$1,155,598	\$(955,929)	\$(82,610)
Net Income (Loss)			27,392	
Reacquired shares of common stock			(4,079)	
Balance 12/31/91	\$302,485 =====	\$1,155,598 =====	\$(932,616) =====	\$(82,610) =====

2. On November 11, 1987, the registrant acquired Public Gas Company, a retail gas distributor, for \$60,000 in cash. In addition, the registrant caused Public's notes payable to be paid in full on the date of closing. The excess of cost over fair market value of assets acquired or adjusted was \$101,416, which is being amortized over 25 years. Total amortization to September 30, 1991 is \$15,907 leaving a carrying value of \$85,509.

3. Long-term debt due banks at December 31, 1991 and September 30, 1991 are:

<u>Lender and terms:</u>	<u>December 31, 1991</u>	<u>September 30, 1991</u>
First Security National Bank & Trust Company of Lexington, unsecured note payable in monthly installments, beginning September 1988, of \$10,000 plus interest at the bank's prime rate plus 1.25% with a final balloon payment due March 29, 1992	note paid in full	\$262,899
Pikeville National Bank & Trust Company, Unsecured note payable in monthly install- ments, beginning January 25, 1988, of \$8,750 including interest at the bank's prime rate, with final payment due December 25, 1992	note paid in full	122,993

Pikeville National Bank & Trust Company,
 Note secured by the issued and
 outstanding stock of Public Gas Company,
 payable in monthly installments beginning
 January 25, 1988, of \$3,936, including
 interest at the bank's prime rate, with
 final payment due December 25, 1992.

note paid	
<u>in full</u>	<u>55,430</u>

Total long-term debt due banks

-0-

\$441,322

4. On November 26, 1991, the Company and Pan Bowl Production Company, Inc. a corporation wholly owned by two stockholders owning 79.6% of Resources' outstanding shares, completed the sale of substantially all the assets of the Company and Pan Bowl to a group of investors.

Under the terms of the agreement the Company sold all of the outstanding shares of Public Gas Company and substantially all of the remaining assets of the parent company and two other subsidiaries, consisting principally of fixed assets and wells interests for the aggregate consideration of \$1,075,000. The sale resulted in a loss of (\$120,829), represented by the excess of book value of assets sold, over the sales price. The proceeds of the sale was used to pay off all bank debt and other liabilities of the consolidated companies, which totaled \$1,009,478 at September 30, 1991. The fixed assets and wells interests of Pan Bowl were sold for \$535,000, and the proceeds of that sale were used to pay its obligations.

The Company retained certain assets including cash and receivables; and all rights to settlement of a lawsuit between the Company and Columbia Gas. Under the settlement agreement, the Company receives \$377,189, of which \$230,790 was paid on January 27, 1992, and was accrued in the financial statements for the fiscal quarter ending December 31, 1991. The remaining balance of \$146,399 was scheduled to be paid on March 23, 1992, and while the bankruptcy court did not authorize Columbia Gas to make the second payment at the December 12, 1991 hearing, the Bankruptcy Court Judge suggested application be made at the appropriate later date.

5. The accompanying financial statements are presented in accordance with the requirements for Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principals or those made in the registrant's annual Form 10-K for the year ended September 30, 1991.

The statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. In the opinion of the management, all adjustments necessary for a fair presentation of this information have been made.

MANAGEMENT'S ANALYSIS OF THE CONDENSED
CONSOLIDATED STATEMENT OF OPERATIONS

Three Months Ended December 31, 1991 Compared to
Three Months Ended December 31, 1990

Net income for the three months ended December 31, 1991 totaled \$27,392 or \$.25 per share, compared with a net income of \$14,280 or \$.13 per share for the three months ended December 31, 1991.

Gross margin from the sale of natural gas was \$33,542 in 1991, compared to gross margin of \$169,290 in 1990, due entirely to the fiscal quarter shortened by the sale of substantially all of the assets of the Company on November 26, 1991. The consequences of the sale make the quarters generally not comparable, however there are significant items of income and expense which should be noted.

Included in income is \$230,790 in partial settlement of class action suit against Columbia. Slightly over one-half of the settlement proceeds offset by loss on sale of Company assets in amount of (\$120,829). Expenses decreased approximately (\$170,000) as a result of substantial decreases in all categories except general and administrative costs due to legal and accounting expenses occasioned by detailed proxy statements and plan of liquidation in connection with completion of the sale.

Liquidity and Capital Resources

As of December 31, 1990, the Company had working capital of \$4426857 as compared to negative working capital of (\$862,623) on September 30, 1991. The resulting working capital ratios were 11.7:1 and .11:1 on December 31, 1991, and September 30, 1991, respectively. The increase in working capital of \$1,305,480 is entirely attributable to the sale of the Company's fixed assets and wells interests.

The Company's principal source of working capital has been revenues from Columbia Gas. In previous years, advances were procured from related entities, and payment to them delayed until funds were available. In addition, in the past both short-term and long-term borrowings were available in conjunction with personal guarantees from the Company's two principal shareholders. However, was no assurance that such related party advances or personal guarantees will be available in the future. These factors made the sale of the Company assets the only viable alternative.

Effects of Inflation

During the eight most recent fiscal quarters, inflation was not significant. The Company is subject to the same inflationary trends found throughout the economy and reflected in higher prices for virtually all goods and services which it must purchase. The Company is not totally able to control the effects of inflation on increasing expenses.

PART II

Item 1. Legal Proceedings

On December 12, 1991, in the Chapter 11 bankruptcy proceedings for Columbia Gas Transmission Corporation ("Columbia Gas") in the United States Bankruptcy Court in Wilmington, Delaware, the bankruptcy court authorized Columbia Gas to pay the initial \$15 million installment of the \$30 million Settlement Fund payable to the class of plaintiffs in Enterprise Energy Corp., et. al. v. Columbia Gas Transmission Corp. Capitol Oil, a wholly owned subsidiary of the Company and a member of the plaintiff class, received its initial distribution of \$377,231 from the Settlement Fund on January 27, 1992. From this amount, Capitol Oil distributed \$146,441 to parties from which it has purchased natural gas sold under the gas supply contracts at issue in the litigation.

Columbia Gas was scheduled to deposit the second and final \$15 million portion of the Settlement Fund on March 23, 1992. The bankruptcy court did not authorize Columbia Gas to make this second payment at the December 12, 1991 hearing. Counsel for the plaintiff class has advised the Company that it believes that Columbia Gas may still obtain bankruptcy court authorization to make a timely payment of the second \$15 million, but there can be no assurance that the bankruptcy court will authorize the payment.

EXHIBIT INDEX

Exhibit No.

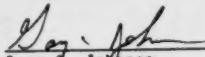
Description

2.	Not applicable
4.	Not applicable
11.	Not applicable
15.	Not applicable
18.	Not applicable
19.	Not applicable
20.	Not applicable
23.	Not applicable
24.	Not applicable
25.	Not applicable
28.	Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereto, duly authorized.

CAPITOL RESOURCES, INC.

A handwritten signature in dark ink, appearing to read "Gary E. Johnson", is written over a horizontal line.

Gary E. Johnson
Chief Financial Officer

February 14, 1992

Date

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Q-35640

SECURITIES AND EXCHANGE COMMISSION

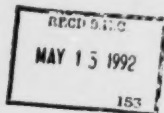


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92-2262 15/

Washington, D.C. 20549

FORM 10-Q



(Mark One)

☒

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992
☐

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

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Commission File Number 0-7481

MAY 14 1992

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COMPUTER AUTOMATION, I

(Exact name of registrant as specified in its charter)

Delaware(State or other jurisdiction of
incorporation or organization)95-2498419

(I.R.S. Employer Identification No.)

1819 Firman Drive #101, Richardson, Texas

(Address of principal executive offices)

75081

(Zip code)

(Registrant's telephone number, including area code) (214) 680-9913

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, \$.10 par value

Outstanding at May 8, 1992
2,881,119 shares

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COMPUTER AUTOMATION, INC.

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Part I. Financial Information

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PART I. FINANCIAL INFORMATION

**COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 1992</u> (unaudited)	<u>June 30, 1991</u>
<u>ASSETS:</u>		
CURRENT ASSETS:		
Cash	\$ 446,000	\$ 282,000
Accounts receivable, less allowance for doubtful accounts of \$39,000 at March 31, 1992 and \$50,000 at June 30, 1991	1,006,000 *	1,595,000
Notes receivable (Note 6)	378,000	419,000
Inventories (Note 2)	2,814,000	2,380,000
Prepaid expenses	<u>312,000</u>	<u>217,000</u>
Total current assets	4,956,000	4,893,000
Property and equipment, at cost	2,059,000	2,007,000
Less: Accumulated depreciation	<u>(1,749,000)</u>	<u>(1,639,000)</u>
Property and equipment, net	<u>310,000</u>	<u>368,000</u>
Capitalized software, net	8,000	31,000
Goodwill, net	279,000	356,000
Other assets	<u>185,000</u>	<u>65,000</u>
	<u>\$ 5,738,000</u>	<u>\$ 5,713,000</u>

See accompanying notes.

COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(continued)

	March 31, <u>1992</u> (unaudited)	June 30, <u>1991</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 3)	\$ ---	\$ 1,127,000
Convertible debenture (Note 3)	1,750,000	---
Accounts payable	684,000	867,000
Accrued expenses:		
Employees' compensation	264,000	249,000
Other (Note 1)	<u>731,000</u>	<u>759,000</u>
Total current liabilities	3,429,000	3,002,000
STOCKHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value:		
Authorized 1,000,000 shares	---	---
None outstanding		
Common stock, \$.10 par value:		
Authorized 10,000,000 shares, issued and outstanding, 2,881,119 shares at March 31, 1992 and 2,770,943 shares at June 30, 1991	288,000	277,000
Other stockholders' equity	<u>2,021,000</u>	<u>2,434,000</u>
Total stockholders' equity	<u>2,309,000</u> <u>\$5,738,000</u>	<u>2,711,000</u> <u>\$5,713,000</u>

See accompanying notes.

COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	1992	1991	1992	1991
Revenues	\$ 1,028,000	\$ 2,232,000	\$ 4,602,000	\$ 9,004,000
Cost of revenues and expenses:				
Cost of revenues	733,000	1,388,000	2,671,000	4,772,000
Selling, engineering and development, and administrative	1,143,000	1,025,000	3,746,000	3,136,000
Royalty income (Note 4)	(32,000)	(567,000)	(1,398,000)	(642,000)
Other (income) expense, net	<u>(11,000)</u>	<u>(118,000)</u>	<u>70,000</u>	<u>319,000</u>
Income (loss) before taxes	(805,000)	504,000	(487,000)	1,419,000
Provision for taxes	<u>---</u>	<u>13,000</u>	<u>24,000</u>	<u>36,000</u>
Net income (loss)	\$ <u>(805,000)</u>	\$ <u>491,000</u>	\$ <u>(511,000)</u>	\$ <u>1,383,000</u>
Net income (loss) per common share	\$ <u>(0.28)</u>	\$ <u>0.17</u>	\$ <u>(0.18)</u>	\$ <u>0.49</u>
Average common shares and common equivalent shares outstanding	<u>2,880,000</u>	<u>2,860,000</u>	<u>2,857,000</u>	<u>2,820,000</u>

See accompanying notes.

COMPUTER AUTOMATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	<u>Nine Months Ended March 31,</u>	
	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net income (loss)	\$ (511,000)	\$1,383,000
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	212,000	222,000
(Increase) decrease in accounts receivable	589,000	(445,000)
(Increase) decrease in inventories	(434,000)	204,000
Increase in prepaid expenses	(95,000)	(79,000)
Increase in other assets	(120,000)	(7,000)
Increase (decrease) in accounts payable	(183,000)	(369,000)
Increase (decrease) in accrued expenses:		
Employees' compensation	15,000	(31,000)
Other	(28,000)	(416,000)
Total adjustments	<u>(44,000)</u>	<u>(921,000)</u>
Net cash provided by (used in) operating activities	<u>(555,000)</u>	<u>462,000</u>
Cash flows from investing activities:		
Reduction in principal of notes receivable	41,000	660,000
Capital expenditures	<u>(54,000)</u>	<u>(158,000)</u>
Net cash provided by (used in) investing activities	<u>(13,000)</u>	<u>502,000</u>
Cash flows from financing activities:		
Proceeds from convertible debt issuance	1,750,000	---
Increase (decrease) in long-term debt	(1,127,000)	(936,000)
Proceeds from issuance of common stock	<u>109,000</u>	<u>---</u>
Net cash provided by (used in) financing activities	<u>732,000</u>	<u>(936,000)</u>
Net increase (decrease) in cash	<u>164,000</u>	<u>28,000</u>
Cash at beginning of period	<u>282,000</u>	<u>44,000</u>
Cash at end of period	<u>\$ 446,000</u>	<u>\$ 72,000</u>

Supplemental disclosure of cash flow information:

The Company paid \$37,000 and \$285,000 in interest expense in the nine month periods ending March 31, 1992 and 1991, respectively.

See accompanying notes.

COMPUTER AUTOMATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary, consisting only of normal recurring adjustments, to present fairly Computer Automation, Inc.'s financial position as of March 31, 1992, and the results of its operations for the three and nine month periods ended March 31, 1992 and 1991, and its cash flows for the nine month periods ended March 31, 1992 and 1991. The results of operations for the three and nine month periods ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year.

The accounting policies followed by Computer Automation are set forth in Note 1 of Notes to the Company's Consolidated Financial Statements for the fiscal year ended June 30, 1991, which statements and notes thereto are set forth in the Company's report on Form 10-K for the same year.

Accrued Expenses - other includes deferred revenue of \$329,000 and \$231,000 at March 31, 1992 and June 30, 1991, respectively. Deferred revenue relates to the Company's service contracts with its customers which is recognized in the month the service is rendered. The service contracts are for terms of twelve months or less.

2. Inventories consisted of the following:

	March 31, 1992	June 30, 1991
Raw materials and finished parts	\$ 1,532,000	\$ 1,554,000
Work in process	637,000	298,000
Finished goods	<u>645,000</u>	<u>528,000</u>
Total inventories	\$ <u>2,814,000</u>	\$ <u>2,380,000</u>

3. On August 15, 1991, as a result of funds received from IBM Corporation (see Note 4 to these Financial Statements) the Company paid the remaining balance on notes issued in the January, 1990 private placement in full, including accrued interest, or a total of \$1,094,000.

On February 10, 1992, the Company entered into a Convertible Debenture Loan Agreement which provided a loan of \$1,750,000 to be used for working capital purposes. The agreement provides for interest at 12.5% payable quarterly, with no principle payments until April 1, 1995. The debenture may be converted at any time into shares of the Company's common stock at a price of \$1.25 per share, subject to adjustment for stock splits, combinations or dividends. Absent conversion, between April 1, 1995 and October 1, 1998, the Company must make equal monthly payments reducing the outstanding principle by one-half, with the balance maturing on January 1, 1999. Commencing on April 1, 1995, the Company may redeem the entire debenture at 115% of par; commencing April 1, 1996 at 110% of par; and from April 1, 1997 on at 105% of par. Under

COMPUTER AUTOMATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

this agreement the Company must maintain certain financial ratios, including current assets to current liabilities, and minimum levels of stockholders equity, starting at \$2,500,000 and adjusted each fiscal year thereafter. The agreement also provides for certain other constraints and compliances, and for registration of the common stock upon conversion. However, the Company is not required to incur the expense of such registrations for the first three years of the agreement. The agreement does not restrict dividends (except as to the maintenance of minimum equity requirements) and allows the Company to obtain up to \$250,000 in working capital borrowing if required for operations. In addition, the Company has provided a security interest in the Q/FAX technology until such time as the Company records four consecutive quarterly profits.

As a result of the loss in the third quarter of fiscal 1992, the Company is not in compliance with either the minimum equity requirement or the minimum interest coverage requirement of the loan agreement. As of May 12, 1992, the Lender has not declared a default on the loan as a result of this non-compliance. Should the Lender declare a default under the agreement the Company would have 30 days to remedy the default before the Lender could declare an "event of default." Upon the occurrence of an event of default, the Lender may declare the entire amount due and payable. As a result of this, the Convertible Debenture is classified in these financial statements as a current liability. After this reclassification, the Company is also not in compliance with either the minimum net working capital requirement or the minimum current ratio requirement of the loan agreement.

4. In July 1991, the Company reached an agreement with International Business Machines (IBM) to amend the Patent Cross License Agreement, dated January 1, 1987, whereby IBM will have royalty-free use of the Company's Automatic Modular Memory Address Allocation System Patent in consideration of a lump sum payment of \$1,600,000. Of this amount, \$285,000 related to royalties accruing prior to June 30, 1991 and the balance was recorded as royalty income in the three month period ended September 30, 1991.
5. Earnings per share are based on the weighted average number of shares outstanding during each period. Shares issuable upon the exercise of stock options or warrants (common stock equivalents) are included when the effect is dilutive, using the treasury stock method. Fully diluted earnings per share are not presented as they do not significantly differ from primary earnings per share.
6. Upon the sale of its Commercial Systems Division in 1985, the Company received three installment notes aggregating \$4,273,000 with payment guaranteed by the debtor's principal shareholder. In July 1987 an unrelated company purchased selected assets and assumed certain

COMPUTER AUTOMATION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

liabilities of those U.S. and European operations, including the above referenced notes. The payments under all notes were revised to require equal monthly payments, including interest, totaling approximately \$87,000, beginning July 1987 and continuing through September 1991, the final payment date of the original notes.

All monthly payments under these notes were made as required through the payment due March 31, 1991. However, the debtor defaulted on the payment of principal and interest in connection with the April 1991 due date, although continuing to make monthly payments at approximately 50% of the scheduled rate, through June 1991 (all payments being received after the month end). No payments have been subsequently received and the debtor could not provide an adequate work-out schedule acceptable to the Company. Consequently, in July 1991, the Company filed suit in the Superior Court of the State of California for the County of Orange seeking immediate payment of the remaining principal, approximately \$381,000, plus interest, penalties and costs. At the court hearing on this matter in April, 1992, the parties failed to reach a settlement on this matter and the court established an August, 1992 date for a trial. The Company believes the balance due to be collectible and accordingly has not established any reserve related to the notes.

7. On July 4, 1991, a civil action was filed against the Company by Yrel Electronique et Informatique company (YREL) in the Tribunal of Commerce of Versailles, Versailles, France. The complaint appeared to be based upon claims of unfair competition and purported to state causes of action for breach of contract and loss of business. YREL sought damages in the amount of FF4,000,000 (approximately \$724,000) plus court costs. In October, the Company received notice that YREL was placed in receivership and the legal proceedings against the Company were in abeyance while the court appointed receiver determined a course of action. In February, the Company received notice that this proceeding was removed from the Court of Versailles by administrative action. This means the Liquidator or Receiver must take action to reinstitute the proceedings.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

General

The Company completed the restructuring begun in 1990 with the transfer in April 1991, of the OEM product service operations to Richardson, Texas, where it joined the corporate and U.S. Q/FAX and ruggedized PC product operations already there. The focus placed on automatic test equipment ("ATE") and traditional OEM products in the first half of fiscal 1991 resulted in increased revenue and profitability in fiscal 1991. However, during the second half of fiscal 1991 both ATE and OEM customers were curtailing or delaying capital expenditures, which was largely responsible for the lower level of revenue in the second half. This trend continued during the first three quarters of fiscal 1992. The Q/FAX product, which in conjunction with MicroVAX computers may be used to transmit and receive images directly to or from remote fax machines or remote similarly equipped computers, generated increased revenues in the first nine months of fiscal 1992, but not enough to offset the decline experienced in ATE revenues.

During the last quarter of fiscal 1991 and the first quarter of fiscal 1992, the Company revised its marketing focus in the ATE and Q/FAX product lines. The Company introduced the new Series 2000 Automatic Functional Test System and added the S20 MDA/In-circuit Analyzer as a complimentary product offering. The ATE marketing focus for the revised product line is designed to address the price/performance characteristics required by the commercial marketplace, as well as the increasingly price sensitive military market. However, despite these efforts and higher sales and marketing expenditures, the general uncertainty regarding the overall economy during the first nine months of fiscal 1992 caused continued deferment in purchasing by potential buyers.

The Company is marketing the Q/FAX product as a fax management system, which in conjunction with DEC's MicroVax and VAX 4000 computers and a wide variety of complementary software, is intended to meet the needs of companies faced with rapid growth in fax machines and fax traffic who are determining that fax communications must be integrated with the existing management information systems. Additionally, the Q/FAX product is intended to meet the needs of information services providers who will be able to generate additional revenues through fax services. The Company increased the expenditures on the Q/FAX product line in the first three quarters of fiscal 1992 in the areas of sales and marketing and engineering and development, primarily by adding personnel, advertising and incurring development related expenses.

The Company believes that its traditional OEM products will continue to be a significant portion of its revenues in fiscal 1992, as a result of sales to existing customers in Europe and to end users in the United States and service revenues. The Company will continue to make minor enhancements of the products

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

currently offered based on customer interest, but no significant expenditures on product development or advertising are currently planned for the OEM product line.

Although the Company reached a Patent Licensing Agreement with NCR Corporation which will provide ongoing royalties and is continuing to seek other licensees, as a result of the Agreement reached with IBM Corporation, the Company does not anticipate that future royalty income from the AMMAAS Patent will be significant.

As a result of continued weakness in revenues in the third quarter of fiscal 1992, the Company has canceled certain planned expenditures for personnel and marketing, reduced the number of employees worldwide by approximately 20% and instituted other cost saving programs. Product revenues, especially ATE revenues have continued to be depressed below the levels anticipated by the Company, as customers continue to postpone purchases of equipment. Q/FAX revenues have not increased sufficiently in fiscal 1992 to offset the reductions in other product revenues.

Although the Company has seen signs suggesting improvement for the fourth quarter of fiscal 1992, it is too early to determine whether revenues will return to a level sufficient enough to provide profitability. Depending on the amount and timing of revenue production in the fourth quarter, the Company may be required to initiate further cost reductions. Significant increases over third quarter revenue levels will be required in the fourth quarter in order to operate profitably, even with further cost reductions.

Liquidity and Capital Resources

During the nine months ended March 31, 1992, the Company's cash position increased by \$164,000, primarily due to the proceeds from the convertible debenture and the royalty income received from IBM Corporation, offset by the payment of the previous debt and the losses from operations.

In the second and third quarters of fiscal 1992, the Company experienced a significant decline in ATE revenues. The Company had anticipated revenues from various customers, primarily military or military related spare parts and upgrades, which were almost unanimously delayed or postponed. Although the Company believes that substantially all of the business will be consummated in calendar 1992, this delay severely impacted the Company's operating results and cash flows for both quarters. As a result of the decline in ATE revenues experienced in the second quarter of fiscal 1992, the Company's cash flow was strongly impacted during January, 1992 and vendor payments were delayed. On February 10, 1992, the Company entered into a Convertible Debenture Loan Agreement which provided \$1,750,000 for working capital purposes. This agreement is more fully discussed in Note 3 of the Financial Statements herein. These proceeds allowed the Company to pay its trade vendors on a timely basis during the quarter and into April 1992.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

However, as a result of the \$805,000 loss incurred in the third quarter, the Company again experienced cash shortages beginning in late April and expects these shortages to continue during the quarter until receipts on accounts receivable improve. Vendor payments will again be delayed during this time. Improved revenue levels in ATE and Q/FAX products during May and June will be required to avoid further worsening of cash shortages. In addition, as a result of the loss in the third quarter, the Company is not in compliance with the terms of the loan agreement (see Note 3 of these financial statements).

Results of Operations

Nine Months Ended March 31, 1992 and 1991

Revenues for the nine months ended March 31, 1992 decreased 49% from the year earlier period primarily due to a substantial decrease in ATE product revenue worldwide, especially in the second and third quarters. Traditional OEM product and service revenues also declined from the prior year nine month period. Partially offsetting this decrease were Q/FAX product revenues, which increased during the current nine month period. ATE service revenues were up slightly from the previous nine month period.

The significant decrease in ATE product revenue in the first nine months of fiscal 1992 was due to customers' delays and postponements of orders. This phenomenon was particularly acute in the second and third quarters, and the majority of the customers whose anticipated orders were delayed were military or military related customers.

Cost of revenues declined 44% when compared to the year earlier period, resulting in a gross margin on revenues of 42%, as compared to 47% in the nine months ended March 31, 1991. This reduction was primarily the result of the decline in revenues. Significantly lower manufacturing costs and lower service costs during the current nine month period, however, aided in reducing cost of revenues in spite of the revenue decline worldwide.

Selling, engineering and development, and administrative expenses increased 19% as compared to the year earlier nine month period, due to ATE and Q/FAX selling and engineering and development expenses. These increased expenditures were the result of the new product marketing and development programs which the Company undertook in fiscal 1992. Administration expenses decreased 12% from the prior year nine month period.

Royalty income during the current nine month period is primarily the result of the agreement reached with IBM Corporation, as previously noted. Royalty income in the prior nine month period was also primarily from IBM Corporation.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Other (income) expense, net in the current nine month period reflects the lower interest expense incurred due to repayment of the debt in August, 1991.

The loss before taxes of \$487,000 during the current nine month period was the result of lower revenues and increased operating expenses partially offset by royalty income. Income before taxes in the prior year nine month period of \$1,419,000 was primarily the result of higher revenues, lower operating expenses, and royalty income.

The provision for taxes of \$24,000 and \$36,000 in the respective periods reflects the fact that the Company has net operating losses in most of the taxing jurisdictions in which it operates which are available to offset future income taxes.

The net loss for the first three quarters of fiscal 1992 of \$511,000, or \$0.18 per share compared to the net income of \$1,383,000, or \$0.49 per share, realized in the first three quarters of fiscal 1991, resulted primarily from substantially higher ATE product revenues during the period.

Three Months Ended March 31, 1992 and 1991

Revenues for the quarter ended March 31, 1992 decreased 54% from the year earlier quarter primarily due to decreased ATE and traditional OEM product revenues worldwide. Cost of revenues decreased 47% compared to the prior year period, as lower manufacturing and service costs only partially offset the reduction in revenues.

Selling and engineering and development expenses increased 12% as compared to the year earlier quarter, due to increases in ATE and Q/FAX selling and engineering and development expenses which were only partially offset during the quarter by cost reductions efforts. Administration expenses decreased worldwide.

As a result of decreased revenues and gross margins and higher operating expenses, the loss before taxes in the current quarter was \$805,000, or \$0.28 per share. There was no tax provision in the current quarter due to the loss. In the year earlier quarter, higher revenues and royalty income produced income before taxes of \$504,000, which, offset by the tax provision of \$13,000, resulted in net income of \$491,000, or \$0.17 per share for the quarter.

COMPUTER AUTOMATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

PART II. OTHER INFORMATION

Item 2. Changes in Securities.

See footnote 3 of the Notes to Condensed Consolidated Financial Statements for information with regard to restrictions under a Convertible Debenture Loan Agreement.

Item 6. Exhibits and Reports on Form 8-K

- a) Exhibits: None.
- b) Reports on Form 8-K: None

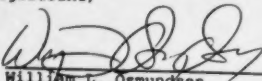
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUTER AUTOMATION, INC.
(Registrant)

Date May 12, 1992

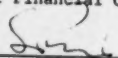
By



William L. Osmundsen
President and
Chief Financial Officer

Date May 12, 1992

By



George Pratt
Chairman and
Chief Executive Officer

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Area 10



Quarterly Report Pursuant to Section 13 or 15(d) of
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 28, 1992

Commission File No. 0-11917

THE DAVEY TREE EXPERT COMPANY

(Exact name of Registrant as specified in its charter)

OHIO

(State of Incorporation)

34-0176110

(IRS Employer Identification No.)

1500 North Mantua St.

Kent, Ohio

(Address of principal executive offices)

44240

(Zip Code)

Registrant's telephone number, including area code: (216) 673-9511

Number of Common Shares Outstanding as of May 11, 1992: 2,612,614

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past ninety (90) days.

YES X

NO

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THE DAVEY TREE EXPERT COMPANY

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THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

Sequential
Page 3 of 10

	Mar. 28, 1992	Mar. 30, 1991	Dec. 31, 1991
	(UNAUDITED)		
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 735	\$ 480	\$ 1,180
Accounts Receivable	21,950	23,466	20,913
Refundable Income Taxes	809	466	--
Operating Supplies	1,953	2,105	1,722
Prepaid Expenses	1,810	1,995	2,014
Deferred Income Taxes	776	1,217	774
Total Current Assets	<u>28,033</u>	<u>29,729</u>	<u>26,603</u>
OTHER ASSETS	3,487	2,933	3,101
PROPERTY AND EQUIPMENT-NET	<u>51,958</u>	<u>43,406</u>	<u>43,532</u>
TOTAL ASSETS	<u>\$83,478</u>	<u>\$76,068</u>	<u>\$73,236</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes Payable to Banks	\$ 80	\$ 1,551	\$ 80
Accounts Payable	8,866	8,005	7,869
Accrued Liabilities	7,513	7,582	7,314
Income Taxes Payable	---	---	916
Current Maturities of Long-Term Debt	1,167	1,381	1,165
Total Current Liabilities	<u>\$17,626</u>	<u>\$18,519</u>	<u>\$17,344</u>
LONG-TERM DEBT			
Notes Payable	\$ 8,000	\$ 8,000	\$ 8,000
8.95% Industrial Development Bonds	1,000	1,500	1,125
Revolving Credit Agreement	15,000	7,500	2,500
Long-Term Debt of ESOT	458	527	482
3% Community Development Block Grant	250	250	250
Term Loans	2,277	1,156	766
Subordinated Notes - Stock Redemption	521	783	521
Other	562	959	876
	<u>28,068</u>	<u>20,675</u>	<u>14,520</u>
Less Current Maturities	1,167	1,381	1,165
Total Long-Term Debt	<u>26,901</u>	<u>19,294</u>	<u>13,355</u>
OTHER LIABILITIES	<u>2,603</u>	<u>4,319</u>	<u>3,277</u>
TOTAL LIABILITIES	<u>\$47,130</u>	<u>\$42,132</u>	<u>\$33,976</u>
SHAREHOLDERS' EQUITY			
Preferred Shares	-0-	-0-	-0-
Common Shares - \$1.00 Par Value;			
Authorized 12,000,000 Shares; issued			
4,364,220 Shares at March 30, 1992,			
March 29, 1991 and December 31, 1991	\$ 4,364	\$ 4,364	\$ 4,364
Additional Paid-in Capital	6,276	6,052	6,241
Retained Earnings	49,480	45,716	51,803
	<u>60,120</u>	<u>56,132</u>	<u>62,408</u>
LESS:			
Treasury Shares at cost; 1,724,111			
Shares at March 30, 1992, 1,670,809			
Shares at March 31, 1991, and 1,696,955			
Shares December 31, 1991	(21,303)	(19,160)	(20,607)
Subscriptions Receivable From Employees	(2,011)	(2,509)	(2,059)
Future Contributions to ESOT	(458)	(527)	(482)
TOTAL SHAREHOLDERS' EQUITY	<u>\$36,348</u>	<u>\$33,936</u>	<u>\$39,260</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$83,478</u>	<u>\$76,068</u>	<u>\$73,236</u>

THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS
Three Months Ended Mar. 28, 1992 and March 30, 1991
(Dollars in Thousands Except Earnings Per Share Amounts)

UNAUDITED

	<u>March 28, 1992</u>		<u>March 30, 1991</u>	
REVENUES	<u>\$40,702</u>	<u>100.0%</u>	<u>\$40,995</u>	<u>100.0%</u>
COSTS AND EXPENSES				
Operating Costs	32,012	78.6	30,866	75.3
Selling, General and Admin.	8,984	22.1	8,545	20.8
Depreciation	<u>2,516</u>	<u>6.2</u>	<u>2,625</u>	<u>6.4</u>
TOTAL COSTS AND EXPENSES	<u>43,512</u>	<u>106.9</u>	<u>42,036</u>	<u>102.5</u>
LOSS BEFORE INTEREST, OTHER INCOME AND INCOME TAXES	(2,810)	(6.9)	(1,041)	(2.5)
INTEREST EXPENSE	(368)	(.9)	(432)	(1.1)
OTHER EXPENSE	<u>(98)</u>	<u>(.3)</u>	<u>(69)</u>	<u>(.2)</u>
LOSS BEFORE INCOME TAXES	(3,276)	(8.1)	(1,542)	(3.8)
INCOME TAX CREDITS	<u>1,294</u>	<u>3.2</u>	<u>612</u>	<u>1.5</u>
NET LOSS	<u>\$ (1,982)</u>	<u>(4.9)</u>	<u>\$ (930)</u>	<u>(2.3)</u>
NET LOSS PER COMMON SHARE	<u>\$ (.72)</u>		<u>\$ (.33)</u>	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, INCLUDING COMMON STOCK EQUIVALENTS	<u>2,746,592</u>		<u>2,798,482</u>	

See Notes to Consolidated Financial Statements

THE DAVEY TREE EXPERT COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
Three Months Ended March 28, 1992 and March 30, 1991
(Dollars in Thousands)

UNAUDITED

	March 28, 1992	March 30, 1991
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings		
Adjustments to Reconcile Net Earnings to		
Net Cash Provided by Operating Activities:	\$(1,982)	\$ (930)
Depreciation and Amortization		
Sub-Total	<u>2,563</u>	<u>2,758</u>
(Gain) Loss on Sale of Fixed Assets	581	1,828
Change in Assets and Liabilities:	(31)	21
(Increase) Decrease In:		
Accounts Receivable		
Operating Supplies	(1,037)	(1,034)
Prepaid Expenses	(231)	(546)
Other Assets	204	17
Increase (Decrease) In:	30	(151)
Accounts Payable and Accrued Liabilities	1,196	(7)
Income Taxes Payable	(1,725)	(1,331)
Deferred Income Taxes	(152)	---
Other Liabilities	38	(156)
Net Cash (Used In) Operating Activities	<u>(1,127)</u>	<u>(1,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Fixed Assets	144	24
Business Acquisitions	(463)	---
Capital Expenditures	(11,038)	(4,208)
Net Cash (Used in) Investing Activities	<u>(11,357)</u>	<u>(4,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
ESOT Payment of Debt Guaranteed by the Company	24	15
Net Borrowings Under Line of Credit Agreements	---	380
Principal Payments of Debt Obligation	(314)	(271)
Proceeds from Issuance of Long-Term Debt	13,300	6,242
Sales of Treasury Shares	200	89
Dividends Paid	(292)	(272)
Payment for Purchase of Common Stock	(813)	(696)
Net Cash Provided by Financing Activities	<u>12,105</u>	<u>5,487</u>
Effect of Exchange Rate Changes on Cash	(66)	(9)
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(445)</u>	<u>(65)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,180	545
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 735</u>	<u>\$ 480</u>

THE DAVEY TREE EXPERT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended March 28, 1992

UNAUDITED

Note 1 - Basis of Presentation

The accompanying unaudited Consolidated Financial Statements as of March 28, 1992 and March 30, 1991 have been prepared in accordance with the instructions to Form 10-Q, but do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation, have been included.

THE DAVEY TREE EXPERT COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
Three Months Ended and at March 28, 1992

Liquidity and Capital Resources

During the first quarter of 1992, operating activities used \$1,127,000 in cash, a decrease of \$232,000 when compared to the first quarter of 1991. The decrease was primarily attributable to an increase in seasonal losses offset by an increase in accounts payable. The increase in seasonal losses was due primarily to \$636,000 of additional earnings generated as a result of tree work gained from an ice storm in the state of New York during the first quarter of 1991. The increased seasonal losses were due secondarily to start-up costs incurred in 1992 approximating \$400,000 associated with new Utility line clearing contracts. The increase in accounts payable resulted from additional amounts owed to capital equipment vendors due to increases in capital expenditures required by the new Utility contracts. It is expected that the level of accounts payable will become comparable to levels experienced in the prior year as the capital expenditure requirements of the new Utility contracts are met.

The Registrant's investing activities used \$11,357,000 in cash in the first quarter of 1992, an increase of \$7,173,000 from the same period in 1991. A significant portion of the increase was attributable to additional capital expenditures of \$6,830,000 which were necessitated by the new Utility contracts. The Registrant expects its budget for capital expenditures in 1992 to be approximately \$22,000,000, an increase of about \$8,000,000 from 1991.

Financing activities generated \$12,105,000 in cash during the first quarter of 1992 compared to \$5,487,000 in the same period in 1991, an increase of \$6,618,000. The increase was attributable to borrowings under the Registrant's revolving credit agreement with a bank which were required to fund the capital expenditures for the new Utility contracts.

At March 28, 1992, the Registrant's principal sources of liquidity consisted of \$735,000 in cash and cash equivalents; short-term lines of credit and amounts available to be borrowed from banks via notes payable totaling \$21,500,000 of which \$8,900,000 had been drawn at March 28, 1992; and a revolving credit agreement with a bank in the amount of \$15,000,000, all of which had been drawn at the end of the first quarter. As of May 7, 1992, \$28,480,000 had been drawn from these agreements. The additional amounts drawn since March 28, 1992 were used to fund expenditures required for the new utility contracts as well as ongoing needs.

Because of the current relatively low long-term interest rates and its ongoing capital needs, on February 19, 1992, the Registrant entered into an agreement with a bank to assist in the preparation, marketing, and private placement of approximately \$10,000,000 in fixed term debt. Coupled with the existing agreements, the Registrant's credit facilities will total approximately \$36,500,000.

-2-

The Registrant believes that its available credit will exceed its credit requirements during 1992, and that its liquidity is adequate to meet short-term obligations. Also, some of the borrowings required during the first quarter will be reduced by cash generated from operating activities during the Registrant's prime sales season which commences in the second quarter.

Results of Operations

Revenues for the first quarter of 1992 of \$40,702,000 decreased \$293,000 when compared to the first quarter of 1991. The first quarter of 1991 included \$1,314,000 of revenues resulting from the ice storm. Excluding these revenues, total revenues would have increased \$1,003,000 or 2.6%. Utility Service revenues are expected to continue to increase throughout the remainder of the year at a slightly higher rate than the first quarter, whereas R/C Services are expected to remain comparable to the prior year in light of continued generally weak economic conditions. The Registrant's services are also highly seasonal, and in that the prime sales season does not commence until the second quarter, it is difficult to draw conclusions regarding annual performance from first quarter results.

Operating costs in the first quarter of 1992 increased \$1,146,000 or 3.7% from the same period in 1991. As a percentage of revenues, operating costs increased 3.3% to 78.6% from 75.3% for the prior year's first quarter. The increase resulted primarily from higher direct labor costs, start-up costs, and increased workers' compensation expense. The increased workers' compensation expense resulted from increased premiums at one of the Registrant's subsidiaries. With the exception of the start-up costs, these trends are expected to continue through the remainder of the year.

Selling, General and Administrative (SG&A) costs increased \$439,000 or 5.1% over the prior year's first quarter. The increase is largely attributable to increased branch office and advertising costs associated with the Registrant's desire to expand its R/C Services.

Depreciation expense of \$2,516,000 in the first quarter of 1992 decreased \$109,000 or 4.2% from the same period in 1991. The decrease resulted primarily from the Registrant's decision to more closely align its depreciation expense with the economic lives of its assets. To accomplish this, in 1991, the Registrant implemented the 150% declining balance method of depreciation on substantially all new acquisitions versus the double declining balance method which was used previously. This decision reduced depreciation expense by \$100,000 for the quarter ended March 28, 1992. The Registrant plans to continue capital expenditures at a level that will provide for the expansion of its R/C Services, maintain equipment on its existing Utility service contracts and provide for the purchase of land and branch office facilities. As a result, depreciation expense is expected to increase in 1992.

Interest expense of \$368,000 was \$64,000 lower than in the first quarter of 1991 because of lower interest rates during the first quarter of 1992 as compared to the first quarter of 1991.

-3-

As a result of the above factors, the loss before income taxes of \$3,276,000 and the net loss of \$1,982,000, were higher than the respective losses of \$1,542,000 and \$930,000 for the first quarter of 1991. An effective rate of 40% was used to compute the tax credits for both years.

The net loss per common share was calculated by using the weighted average number of common shares outstanding, including common stock equivalents during each first quarter period.

THE DAVEY TREE EXPERT COMPANY

PART II: OTHER INFORMATION

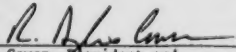
All Items of Part II were either inapplicable or would have been answered in the negative, therefore, no reference thereto is required to be made in this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DAVEY TREE EXPERT COMPANY

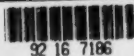
By:


R. D. Cowan, President and
Chief Executive Officer

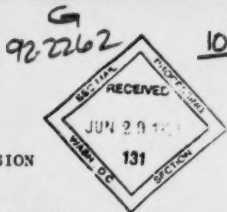
By:


Bradley L. Comport
Corporate Controller

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Q-35048



FORM 10-Q



SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended
May 31, 1992

Commission file number
0-2749

DISTINCTIVE DEVICES, INC.

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

13-1999951
(I.R.S. Employer ID No.)

1324 Motor Parkway, Hauppauge, New York
(Address of principal executive offices)

11788
(Zip Code)

Registrant's telephone number: (516) 348-0300

(Not applicable)

Former name, former address and former fiscal year, if changed
since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X. No .

3,894,912 shares of registrant's common stock, par value \$.05 per share, were outstanding as of June 19, 1992.

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DISTINCTIVE DEVICES, INC. AND SUBSIDIARIES
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Consolidated statements of income--Three months ended May 31, 1992 and 1991

Consolidated statements of cash flows--Three months ended May 31, 1992 and 1991

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 3. Defaults Upon Senior Securities

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DISTINCTIVE DEVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	May 31, 1992 (Unaudited)	February 29, 1992 (Audited)
ASSETS		
Current Assets		
Cash	\$ 23,317	\$ 15,968
Marketable securities, pledged	123,114	121,020
Accounts receivable	134,292	177,075
Inventories		
Finished goods	50,221	43,090
Materials and supplies	102,944	98,910
	<u>153,165</u>	<u>142,000</u>
Prepaid expenses	924	1,800
Total Current Assets	434,812	457,863
Property and Equipment		
Equipment and tooling	28,124	28,124
Transportation equipment	17,423	17,423
Furniture and fixtures	5,903	5,903
	<u>51,450</u>	<u>51,450</u>
Less accumulated depreciation	<u>46,666</u>	<u>45,969</u>
	4,784	5,481
Intangible Assets		
Patents and trademarks	9,024	9,024
Capitalized purchase costs	2,120	2,120
	<u>11,144</u>	<u>11,144</u>
Less accumulated depreciation	<u>7,524</u>	<u>7,374</u>
	3,620	3,770
Deposits	<u>300</u>	<u>300</u>
	<u>\$443,516</u>	<u>\$467,414</u>

The accompanying notes are part of the financial statements.

DISTINCTIVE DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	May 31, 1992 <u>(Unaudited)</u>	February 29, 1992 <u>(Audited)</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current Liabilities		
Notes payable to bank	53,788	87,906
Accounts payable	32,140	46,941
Accrued expenses	12,965	1,868
Due related parties	107,321	106,291
Installment note payable	19,796	18,990
6½% subordinated debentures, subject to compromise	446,000	446,000
Interest payable on debentures, subject to compromise	<u>449,927</u>	<u>449,927</u>
Total Current Liabilities	1,121,937	1,157,923
Commitments and Contingencies--		
Notes A, C and F		
Shareholders' Deficiency		
Preferred stock, \$1 par value (Liquidation preference \$10 per share)		
Authorized shares: 1,000,000		
Issued and authorized shares--		
17,550 in 1992 and 1991	17,550	17,550
Common stock, \$.05 par value		
Authorized shares: 20,000,000		
Issued and outstanding shares--		
3,894,912 in 1992 and 1991	194,746	194,746
Additional paid-in capital	523,330	523,330
Accumulated deficit	<u>(1,414,047)</u>	<u>(1,426,135)</u>
	<u>(678,421)</u>	<u>(690,509)</u>
	<u>\$443,516</u>	<u>\$467,414</u>

The accompanying notes are part of the financial statements.

DISTINCTIVE DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended May 31,	
	<u>1992</u>	<u>1991</u>
Net sales and royalties	\$214,716	\$188,758
Costs and expenses:		
Cost of goods sold	148,243	125,120
Selling and administrative	<u>56,433</u>	<u>52,360</u>
	<u>204,676</u>	<u>177,480</u>
Income from operations	10,040	11,278
Non-operating income	2,941	2,984
Interest expense, net	<u>(893)</u>	<u>(520)</u>
Net Income	<u>\$ 12,088</u>	<u>\$ 13,742</u>

Per share data:

Net Income	<u>\$.003</u>	<u>\$.004</u>
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The accompanying notes are part of the financial statements.

DISTINCTIVE DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended May 31	
	<u>1992</u>	<u>1991</u>
Operating Activities		
Net income	\$ 12,088	\$ 13,742
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	847	1,740
Decrease in accounts receivable	42,783	65,519
(Increase) decrease in inventories	(11,165)	67,768
Decrease in prepayments	876	2,680
Decrease in accounts payable and accrued expenses	(3,704)	(9,897)
Increase in amounts due related parties	<u>1,030</u>	
Cash from Operating Activities	42,755	141,552
Investing Activities		
Increase in marketable securities	<u>(2,094)</u>	<u>(2,072)</u>
Cash used by Investing Activities	(2,094)	(2,072)
Financing Activities		
Proceeds from short-term borrowing	61,288	53,992
Repayments of short-term borrowings	(95,406)	(130,420)
Increase in installment note payable	<u>806</u>	
Cash used by financing activities	<u>(33,312)</u>	<u>(76,428)</u>
Increase in cash	7,349	63,052
Cash at beginning of period	<u>15,968</u>	<u>6,912</u>
Cash at end of period	<u><u>\$23,317</u></u>	<u><u>\$69,964</u></u>

The accompanying notes are part of the financial statements.

DISTINCTIVE DEVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

May 31, 1992

NOTE A - BANKRUPTCY PROCEEDING AND CONTINUING OPERATIONS

In fiscal 1978 the Company became delinquent in payment of interest on outstanding subordinated debentures (Note C) constituting a condition of default under the related indenture agreement which has continued to date. The debentures matured December 1, 1983 and the Company has been unable to pay or refund this obligation. On March 14, 1990 the trustee for the debenture holders filed suit to recover on the debentures and on April 3, 1990 the Company filed a voluntary petition for protection under Chapter 11 of the Bankruptcy Code. The matter is pending. Neither of the Company's subsidiaries is a party to the bankruptcy proceeding.

In view of matters described in the preceding paragraph survival of the Company is dependent upon results of operations of its subsidiaries and its ability to present to creditors an acceptable plan of reorganization under the Federal Bankruptcy Code (Note F).

NOTE B - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and contemplate continuation of the Company as a going concern. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month period ended May 31, 1992 are not necessarily indicative of results that may be expected for the year ending February 28, 1993. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended February 29, 1992.

NOTE C - SUBORDINATED DEBENTURES DUE DECEMBER 1, 1983, IN DEFAULT

At May 31, 1992 and February 29, 1992 there remained outstanding \$446,000 principal amount of previously convertible subordinated debentures due December 1, 1983, in default as to principal due since maturity and as to interest payable since December 1, 1977. Unpaid interest aggregating \$449,927 was accrued to April 3, 1990, the date when the Company filed a Chapter 11 bankruptcy petition (Note A). Management ceased accruals thereafter since ultimate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

payment is unlikely. Unpaid principal and interest amounts are recorded as current liabilities in the financial statements. The obligations are subordinated to all senior debt, as defined by the related Indenture agreement.

NOTE D - INCOME TAXES

No provision is made for taxes payable on net income as the Company has available relatively substantial net operating loss deductions.

NOTE E - INCOME PER COMMON SHARE

Income per share of common stock is based on the average number of shares outstanding during the periods presented.

NOTE F - PLAN OF REORGANIZATION AND ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK

The parent company's proposed plan of reorganization (note A) has been submitted to the Bankruptcy Court. If found by the Court to conform to provisions of the Federal Bankruptcy Code, it will be submitted for approval to parties whose claims would be impaired by the plan. If the plan is adopted, up to an additional 1,300,000 shares of the Company's authorized and unissued common stock may be issued to claimants.

* * * * *

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Revenues for the three-month period ended May 31, 1992 rose 14% compared to the same period a year earlier. Cost of goods increased to 69% of sales in the latest quarter compared to 66% a year earlier, reflecting higher material costs. Selling and administrative expenses were up 8% in the quarter ended May 31, 1992 compared to a year ago, reflecting continuing expenses related to the pending bankruptcy proceeding and the litigation discussed in Item 1 of Part II of this Report.

As a consequence of the foregoing changes and legal expenses, operating income was \$10,040 in the quarter ended May 31, 1992 compared to \$11,278 in the same period a year earlier and net income in the latest reporting period was \$12,088 compared to \$13,742 a year ago.

Excluding debenture and related unpaid interest debt, consolidated working capital at May 31, 1992 exceeded \$200,000 which is adequate, when supplemented by an available bank credit facility, to handle foreseeable sales activity and legal expenses. Operations are conducted solely by the subsidiary companies, neither of which is a party to Registrant's bankruptcy proceeding.

Bankruptcy Proceeding and Plan of Reorganization

As reported in Note F to the accompanying financial statements, Registrant's proposed reorganization plan has been filed with the Bankruptcy Court. It is believed that the Court will review the plan in July 1992 and, if acceptable, it would be submitted shortly thereafter to claimants impaired by the plan's provisions, for their approval.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

As described in Note A to the accompanying financial statements, suit was commenced against Registrant on March 14, 1990 to recover unpaid principal and interest due on its outstanding debentures. Registrant responded by filing a Chapter 11 bankruptcy petition on April 3, 1990, which effectively stays the lawsuit. The suit seeks recovery of \$446,000 principal amount of debentures and interest thereon from June 1, 1977 at the rate of 6½% per annum. For further information see Notes A, C and F to the accompanying financial statements.

In November 1991 a judgment was entered in Oregon against Registrant's subsidiaries in an amount approximating \$20,000, representing principal and interest due on an installment note issued in 1988. The decision has been appealed. The plaintiff-noteholder in the Oregon action is a defendant in a separate action commenced by one of the subsidiaries in Florida in July 1991. The same parties have been engaged in a protracted federal trademark contest since February 1990.

Item 3. Defaults Upon Senior Securities

Information contained in Notes A and C to the accompanying financial statements, with respect to Registrant's default on principal and interest payable on account of its outstanding subordinated debentures, is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed by Registrant during the three-month period ended May 31, 1992.

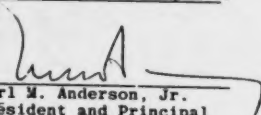
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DISTINCTIVE DEVICES, INC.

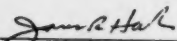
Date: June 23, 1992

by:


Earl M. Anderson, Jr.
President and Principal
Executive Officer

Date: June 23, 1992

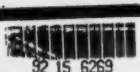
by:


James R. Hawk
Treasurer and Principal
Accounting Officer

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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AMENDED FORM 10-Q

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1992
Commission file number 33-22521

REC'D S.E.C.

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EXCALIBUR HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

84-1103135

(I.R.S. Employer identification Number)

19800 Mac Arthur Blvd., Suite 850, Irvine, CA 92715
(Address of principal executive offices) (Zip Code)

(714) 222-2220

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has
filed all reports required to be filed by Section 13
or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period
that the registrant was required to file such
reports), and (2) has been the subject to such filing
requirements for the past 90 days. Yes X No

The aggregate market value of registrant's voting
stock held by non-affiliates of the registrant as of
March 31, 1992: No known current market value.

Shares of the registrant's common stock outstanding as
of March 31, 1992: 4,320,833

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EXCALIBUR HOLDING CORPORATION

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EXCALIBUR HOLDING CORPORATION
CONDENSED & CONSOLIDATED BALANCE SHEET

	EHC CONSOLIDATED 3/31/92 (UNAUDITED)	EHC CONSOLIDATED 12/31/91
ASSETS		
CURRENT ASSETS:		
CASH	38,888	110,972
NOTE RECEIVABLE	8,079	0
SALE RECEIVABLE	0	263,206
OTHER RECEIVABLE	23,670	1,340
DEPOSIT	56,671	14,771
CURRENT ASSETS	<u>127,308</u>	<u>390,289</u>
NON-CURRENT ASSETS:		
PROPERTY AT COST:	0	0
CAPITALIZED EXPENSES	4,768	0
DEPOSIT ON PROPERTY	0	0
PROPERTY, NET \$43,529	71,141	88,183
INVESTMENTS:		
LEASE RIGHTS	2,000,000	0
GOODWILL	464,000	0
PROVEN RESERVES	3,653,000	0
UNPROVEN RESERVES	662,000	0
	<u>6,854,909</u>	<u>88,183</u>
TOTAL ASSETS	<u><u>6,982,217</u></u>	<u><u>478,472</u></u>

EXCALIBUR HOLDING CORPORATION
CONDENSED & CONSOLIDATED BALANCE SHEET

	EHC CONSOLIDATED 3/31/92 (UNAUDITED)	EHC CONSOLIDATED 12/31/91
LIABILITIES		
CURRENT:		
ACCOUNTS PAYABLE	477,016	390,004
CAPITAL LEASES	15,899	15,899
EQUIPMENT CONTRACTS PAYABLE	0	2,300
ACCRUED PAYROLL	0	18,329
ACCRUED LIABILITIES	56,284	46,142
PAYROLL TAXES & RELATED LIAB.	369,397	316,888
CURRENT PORTION L.T. DEBT	375,000	0
NOTE PAYABLE-CURRENT	800,000	0
CURRENT LIABILITIES	2,093,596	789,562
LIABILITIES SUBJECT TO COMPROMISE	0	368,612
LONG TERM LIABILITIES:		
PAYROLL TAX LIABILITY L.T.	392,408	383,774
CAPITAL LEASES	22,989	22,989
NOTES PAYABLE L.T. (BARTLETT 7")	1,200,000	0
LONG TERM LIABILITIES	1,615,397	775,375
TOTAL LIABILITIES	3,708,993	1,564,937
SHAREHOLDER EQUITY		
COMMON STOCK	368,655	40
PAID IN CAPITAL	4,861,758	139,362
RETAINED EARNINGS	(1,957,189)	(1,225,867)
TOTAL SHAREHOLDER EQUITY	3,273,224	(1,086,465)
TOTAL LIAB & SHAREHOLDER EQUITY	6,982,217	478,472

EXCALIBUR HOLDING CORPORATION
CONDENSED & CONSOLIDATED INCOME STATEMENT

	EHC CONSOLIDATED 3/31/92 (UNAUDITED)	EHC CONSOLIDATED 3/31/91
INCOME		
OIL SALES	3,937	0
GAS SALES	26,345	0
TOTAL INCOME	<u>30,282</u>	<u>0</u>
COST OF SALES		
OPERATING EXPENSES	5,276	0
SEVERANCE TAXES	391	0
COST OF SALES	<u>5,667</u>	<u>0</u>
GROSS PROFIT (LOSS)	<u>24,615</u>	<u>0</u>
ADMINISTRATIVE EXPENSES	(417,277)	0
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX BENEFIT	<u>(392,662)</u>	<u>0</u>
INCOME TAX BENEFIT	0	0
LOSS FROM CONTINUING OPERATIONS	<u>(392,662)</u>	<u>0</u>
DISCONTINUED OPERATIONS		
LOSS FROM DISCONTINUED SECURITY SERVICES	0	(95,505)
GAIN ON DISPOSAL OF DISCONT OPERATIONS		
INCOME (LOSS) FROM DISCONT OPERATIONS	0	(95,505)
NET INCOME (LOSS)	<u>(392,662)</u>	<u>(95,505)</u>
NET (LOSS) PER SHARE	(\$0.09)	(\$0.02)
NUMBER OF SHARES USED IN PER SHARE CALCULATIONS	4,320,833	4,015,363

EXCALIBUR HOLDING CORPORATION
CONDENSED & CONSOLIDATED CASH FLOW STATEMENT

	EHC CONSOLIDATED 3/31/92 (UNAUDITED)	EHC CONSOLIDATED 3/31/91
CASH FLOWS FROM OPERATING ACTIVITIES:		
CASH FROM CONTINUING OPERATIONS	(95,938)	0
CASH FROM DISCONTINUED OPERATIONS	<u>0</u>	<u>83,753</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	(95,938)	83,753
CASH FLOWS FROM INVESTING ACTIVITIES:		
CAPITAL EXPENDITURES	<u>(11,710)</u>	<u>(18,812)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	(11,710)	(18,812)
CASH FLOWS FROM FINANCING ACTIVITIES:		
ADVANCE FROM PARENT	50,000	0
ADVANCE TO PARENT	(7,500)	0
ADVANCE FROM SUBSIDIARY	7,500	0
ADVANCE TO SUBSIDIARY	<u>(50,000)</u>	<u>0</u>
OTHER ASSETS	0	(13,040)
PAYMENTS ON LINE OF CREDIT	0	(41,055)
ADVANCES TO SHAREHOLDER	0	(3,516)
PAYMENT ON LONG TERM DEBT	<u>0</u>	<u>(3,654)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	(61,265)
NET INCREASE (DECREASE) IN CASH	<u>(107,648)</u>	<u>3,676</u>
BEGINNING CASH BALANCE	146,536	4,207
ENDING CASH BALANCE	38,888	7,883

EXCALIBUR HOLDING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 1992

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results from the three month period ended March 31, 1992, are not necessarily indicative of the results that may be expected for the year ended December 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1991.

NOTE B--CHANGE IN OPERATIONS

The financial data presented herein for the three month period ending March 31, 1991, represents the results of operations of the Company's discontinued security guard business which was sold May 23, 1991, and therefore cannot be compared to the financial data for the comparative three month period for 1992.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

During the quarter ended March 31, 1992, the Company's efforts were spent mainly in six areas:

(1) Implementation of the Company's Chapter 11 Plan of Reorganization including the compromising of Company debt through the issuance of securities; (2) collection of final payments from the May 23, 1991 sale of the Company's discontinued security guard operations; (3) completion of the Company's merger with SDR Corporation and related real estate acquisition in Cripple Creek, Colorado; (4) completion of agreements to acquire certain stock and oil and gas properties from Century Energy Management Company, Inc. and Biscayne Petroleum, Inc., (5) completion of negotiations and agreements to acquire the 100% of the stock of Mountaineer Park, Inc., owner of a horse racing entertainment complex in Chester, West Virginia, and (6) providing disclosures and completing arrangements with regulatory authorities and the brokerage community in preparation for the opening of a market for the Company's securities.

1. Pursuant to its Chapter 11 Plan of Reorganization, on January 15, 1992 the Company compromised approximately \$369,000 in unsecured debt and \$261,562 in administrative expenses when it issued new common stock and warrants in satisfaction of such claims as described in Part II, Item 2 "Changes in Securities" below.
2. The Company collected the final installment from the sale of its discontinued security guard business to Security Bureau, Inc., receiving \$263,206 on January 28, 1992.
3. On January 15, 1992, the Company acquired SDR Corporation, a Nevada corporation ("SDR") through a Type "B" merger, in which the shareholders of SDR were issued 3,344,583 shares of new Excalibur common stock in exchange for 100% of their SDR common stock. The assets of SDR Corporation consisted of contracts to acquire all of the oil and gas properties proposed to be acquired under the Plan of Reorganization, an option to purchase a 50% interest in a hotel/casino site composed of 12 commercial lots in the town of Cripple Creek, Colorado and a nominal amount of cash. The hotel/casino site in Cripple Creek is within the historical district where "limited gaming" was recently approved by the State of Colorado. Prior to the merger, SDR conducted a private placement of 73,333 common shares for \$1.00 per share which provided the capital to fund the acquisition of the Cripple Creek property. After an initial down payment of \$15,000 on November 13, 1991, and 6 monthly installments of \$5,000 each, a final installment of \$155,000 is still due on May 31, 1992.
4. Under the oil and gas properties acquisition agreement, completed January 15, 1992, the Company acquired the following properties through its newly formed subsidiary, ExCal Energy Corporation: 100% of the stock of Crystal Exploration Co. Inc., which owns working interests in forty one (41) oil wells in Southeast Michigan; lease rights to approximately 16,000 acres of potential gas producing sites in Southeast Ohio; and working interests in seventy seven (77) gas wells in Southeast Ohio. The acquisitions were made in exchange for 525,000 shares of the Company's common stock and assumption of debt and payables of \$2,464,000.
5. Excalibur also negotiated to acquire a horse racing track in Chester, West Virginia, a 605 acre complex owned by Mountaineer Park, Inc. In addition to the race track, the facilities include a 101 room inn, a nine hole executive golf course and, through a wholly owned subsidiary, a gaming program which consists of 165 video lottery machines offering several games of chance under the trade name Mountaineer Magic®. A similar video lottery program offering games of chance and skill has also been test marketed aboard a major cruise ship and there are plans for further development of the program aboard cruise

ships. The acquisition is subject to the Company's assumption of existing debt of approximately \$3,700,000, payment of \$3,364,000 in stock and cash over time and \$600,000 of working capital for operations. The parties executed a non-binding letter of intent on March 10, 1992, followed by a definitive stock purchase agreement on May 5, 1992. The agreement originally called for a down payment of \$350,000 to be paid on or before April 9, 1992, however, the deadline for payment has been extended until May 27, 1992.

6. On March 18, 1992, and for approximately two weeks thereafter, the Company's common stock was listed on the OTC Bulletin Board under the ticker symbol "EBRH". No active trading market for the stock developed.

Liquidity and Sources of Capital

The Company's liquidity in the first half of 1992 will continue to depend upon successful capital funding required to pay for the Company's operations and the purchase price payments called for under the Cripple Creek real estate, the oil and gas and Mountaineer Park, Inc. acquisition agreements. Delays in establishing a market for the Company's stock have delayed fundings required to fulfill certain payment terms under the acquisition agreements and the Chapter 11 Plan, including payments for certain administrative expenses, priority claims and acquisitions.

Despite delays in completing the acquisition agreements and establishing a market for its stock, the Company has again been able to extend the time of closing of its oil and gas acquisition agreements. Pursuant to an April 20, 1992, amendment to the January 15, 1992 oil and gas acquisition agreements, the Company extended the February 15, 1992 due date on a \$100,000 payment for the 77 gas wells in Southeastern Ohio until May 1, 1992, at which time the Company was required to pay \$105,000, including late penalties, and thereafter, five (5) equal payments of \$300,000 on September 30, 1992, May 31, 1993, January 31, 1994, September 30, 1994, and May 31, 1995, for an additional total of \$1,500,000. Under the original terms of the amendment, if the Company was unable to pay the May 1, 1992 payment, the wells were to have been returned to the Sellers and the Company would have been required to repay certain funds, approximately \$60,000, relating to the wells which were used by the Company's subsidiary since January 15, 1992. Repayment would have been in the form of a note payable from 22% and 10% of the exercise proceeds of the Company's Class A and Class B warrants, respectively. However, as of April 30, 1992, the May 1, 1992 deadline for payment has been extended indefinitely and is payable upon demand, leaving the other terms of the agreements in place.

16,000 acres of leases in Southeast Ohio: two payments of \$105,000 each, including late penalties, on May, 31, 1992 and June 30, 1992. If the Company defaults in making either payment, the Company shall pay any deficiency in the form of a note bearing 10% annual interest, all due and payable October 31, 1992, or payable sooner from 22% and 10% of the exercise proceeds of the Company's Class A and Class B warrants, respectively. Said note, if required, will be subordinated to the note described in the preceding paragraph, if required. If the Company is unable to pay any deficiency under the note by October 31, 1992, the 16,000 acres of leases in Southeast Ohio and the other oil and gas properties, including the 41 oil wells in Southeast Michigan and the 77 partnership wells (if not previously returned), shall be returned to the Sellers.

The Company is also obligated under the option agreement on the Cripple Creek, Colorado property make a final payment of \$155,000 on May 31, 1992, to purchase 50% interest in the property. The Company is in the process of negotiating an extension of the final payment for an additional six months, however, there is no assurance that such negotiations will succeed.

The Company has not made payments pursuant to its Confirmed Plan of Reorganization to the Internal Revenue Service and the California State Employment Development Department in the approximate aggregate amount of \$182,000, composed of a \$125,000 payment which was due February 25, 1992, and the first of twelve quarterly payments of \$57,000 each which was due April 24, 1992. In addition, the Company has not paid certain administrative expenses and priority claims which were due February 15, 1992 under the Plan of Reorganization.

The Company is making arrangements with several market makers in anticipation of establishing a market for its stock. The Company is also attempting to raise capital from certain private sources, but will rely primarily upon revenues to be generated from warrant exercise proceeds once an active trading market is established. Once the down payments for the acquisitions have been made, and with limited capitalization, the oil and gas projects and Mountaineer Park are projected to operate profitably during 1992. There can be no assurance that capital or revenues will be generated in sufficient amounts or within the time required to consummate the Company's proposed acquisitions or to carry on operations.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no additional legal proceedings beyond those which are disclosed on Form 10-K for the period ending December 31, 1991.

Item 2. CHANGES IN SECURITIES

On January 15, 1992, pursuant to its merger agreement with SDR Corporation, its acquisition agreements with Century Energy Management Company, Inc. and Biscayne Petroleum, Inc., and its Chapter 11 Plan of Reorganization, the Company caused the following changes in its securities:

1. The Company satisfied the allowed claims of Chapter 11 unsecured creditors, estimated by the Company to aggregate \$369,000, by issuing them 160,000 shares of new common stock (pursuant to exemption from registration under 11 U.S.C. §1145);
2. The Company satisfied the allowed claims of certain professionals for Chapter 11 post-petition services by issuing them 66,250 shares of new common stock and 50,000 capital units, each unit consisting of one share of common stock and four Class A warrants, four Class B warrants and four Class C warrants (pursuant to exemption from registration under 11 U.S.C. §1145);
3. The Company satisfied the allowed claims of its equity security holders by canceling the 4,015,363 shares of common stock and warrants they held pre-petition, and issuing them new equity securities consisting of 175,000 capital units, each unit consisting of one share of common stock and two Class A warrants, two Class B warrants and three Class C warrants (pursuant to exemption from registration under 11 U.S.C. §1145);
4. The Company issued 3,344,583 shares of common stock (subject to Rule 144) in exchange for 100% of the outstanding common stock from the shareholders of SDR Corporation; and
5. The Company issued 525,000 shares of its common stock (subject to Rule 144) and \$2,386,500 in debt instruments to acquire certain oil and gas assets from Century Energy Management Company, Inc. and Biscayne Petroleum, Inc.

At March 31, 1992, the capital structure of the Company was as follows:

<u>Interest Holder</u>	<u>Common Stock</u>	<u>Class A Warrants</u>	<u>Class B Warrants</u>	<u>Class C Warrants</u>
Unsecured creditors.....	160,000	0	0	0
Professionals for post-petition services.....	116,250	200,000	200,000	200,000
Shareholders of the debtor.....	175,000	350,000	350,000	525,000
SDR Corporation shareholders...	3,344,583	0	0	0
Century Energy Management Company, Inc., Biscayne Petroleum and affiliates.....	525,000	0	0	0
Totals.....	<u>4,320,833</u>	<u>550,000</u>	<u>550,000</u>	<u>725,000</u>

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

A report on Form 8-K was filed during the three months ended March 31, 1992, on January 27, 1992. An amendment to said Form 8-K dated April 28, 1992 was filed on May 1, 1992.

SIGNATURES

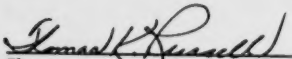
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXCALIBUR HOLDING CORPORATION

(Registrant)


Michael R. Dunn, President

5/19/92
(Date)


Thomas K. Russell,
Chief Financial Officer

5/19/92
(Date)

0 4510
Q-35639

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549



I
92-2262 16

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 30, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-12604

GTECH Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

05-0389840

(I.R.S. Employer Identification
Number)

55 Technology Way, West Greenwich, Rhode Island

(Address of principal executive offices)

02817

(Zip Code)

Registrant's telephone number, including area code: (401)392-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

At June 15, 1992 there were 200 shares of the registrant's Common Stock outstanding.

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GTECH CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

OTICH CORPORATION AND SUBSIDIARIES

	(Unaudited)	
	February 29, 1992 (1)	May 30, 1992
	(Dollars in	thousands)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,342	\$ 4,674
Trade accounts receivable	33,729	55,714
Current portion of receivables relating to sales-type leases	5,442	5,106
Inventories--Note B	28,097	27,015
Deferred income taxes	6,315	6,315
Other current assets	2,604	2,886
TOTAL CURRENT ASSETS	79,529	101,710
RECEIVABLES RELATING TO SALES-TYPE LEASES, LESS CURRENT PORTION	9,045	8,378
SYSTEMS, EQUIPMENT AND OTHER ASSETS RELATING TO LOTTERY CONTRACTS	229,370	262,802
Less: Accumulated Depreciation	(72,631)	(83,272)
	156,739	179,530
PROPERTY, PLANT & EQUIPMENT	23,937	26,331
Less: Accumulated Depreciation	(6,930)	(8,244)
	17,007	18,087
GOODWILL	95,895	95,263
OTHER ASSETS	27,053	28,062
	\$ 385,268	\$ 431,030

(1) The balance sheet at February 29, 1992 has been taken from the audited financial statements at that date.

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS—CONTINUED

OTEC CORPORATION AND SUBSIDIARIES

(Unaudited)

February 29, 1992 (1)
(Dollars in thousands)

May 30, 1992
(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 35,363	\$ 30,277
Accrued expenses	17,731	19,914
Advance payments from customers	7,482	9,359
Accrued interest payable	2,973	6,705
Employee compensation	8,776	9,019
Taxes, other than income taxes	4,818	5,059
Income taxes payable—Note E	5,119	10,461
Current portion of long-term debt—Notes C and F	18,896	20,081
TOTAL CURRENT LIABILITIES	101,158	110,875

LONG-TERM DEBT, less current portion—Notes C and F

202,669 224,075

CASH COLLECTED IN EXCESS OF REVENUE RECOGNIZED

20,911 22,463

OTHER LIABILITY

2,468 2,533

REDEEMABLE PREFERRED STOCK, par value \$.01 per share,

2,200,000 shares authorized, 1,146,921 and 1,194,211 shares issued and outstanding at February 29, 1992 and May 30, 1992 respectively, with a liquidation preference of \$25 per share—Notes D and F

27,347 28,612

SHAREHOLDERS' EQUITY—Note F

Common Stock, par value \$.01 per share—200 shares authorized, issued and outstanding

— —

Additional paid-in capital

27,658 27,595

Equity carryover basis adjustment

(7,008) (7,008)

Translation adjustment

225 489

Retained earnings

9,840 21,396

30,715 42,472

\$ 385,268 \$ 431,030

(1) The balance sheet at February 29, 1992 has been taken from the audited financial statements at that date.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

OTEC CORPORATION AND SUBSIDIARIES

	Three Months Ended	
	May 25, 1991	May 30, 1992
	(Dollars in thousands except per share amounts)	
Revenues:		
Services		
Sales of products	\$ 53,650	\$ 70,975
	<u>24,729</u>	<u>49,499</u>
Costs and expenses:	78,379	120,474
Costs of services		
Costs of sales	32,526	44,555
	<u>13,649</u>	<u>24,821</u>
	<u>46,175</u>	<u>69,376</u>
Gross profit	32,204	51,098
Selling, general and administrative		
Research and development	11,288	18,718
	<u>3,933</u>	<u>5,958</u>
Operating income	16,983	26,422
Other income (expenses):		
Interest income	701	542
Other income	424	537
Interest expense	<u>(7,078)</u>	<u>(6,456)</u>
Income before income taxes	11,030	21,045
Income taxes—Note E	<u>7,610</u>	<u>8,207</u>
Net income	3,420	12,838
Dividends on and accretion of preferred stock	<u>(1,102)</u>	<u>(1,282)</u>
Net income applicable to common shareholders	\$ <u>2,318</u>	\$ <u>11,556</u>
Earnings per common share	\$ <u>11,590.00</u>	\$ <u>57,780.00</u>
Weighted average common shares outstanding	<u>200</u>	<u>200</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

GTECH CORPORATION AND SUBSIDIARIES

	Common Stock		Additional Paid-in Capital (Dollars in	Other thousands)	Retained Earnings	Total
	Shares	Amount				
Balance at February 29, 1992	200	\$ —	\$ 27,658	\$ (6,783)	\$ 9,840	\$ 30,715
Return of capital contributed by GTECH Holdings	—	—	(63)	—	—	(63)
Preferred stock dividend-paid in kind	—	—	—	—	(1,199)	(1,199)
Accretion of preferred stock issuance cost	—	—	—	—	(83)	(83)
Net income	—	—	—	—	12,838	12,838
Foreign currency translation	—	—	—	264	—	264
Balance at May 30, 1992	<u>200</u>	<u>\$ —</u>	<u>\$ 27,595</u>	<u>\$ (6,519)</u>	<u>\$ 21,396</u>	<u>\$ 42,472</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

GTECH CORPORATION AND SUBSIDIARIES

	Three Months Ended	
	May 25, 1991	May 30, 1992
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:	\$ 3,420	\$ 12,838
Depreciation and amortization	9,812	13,449
Non-cash stock compensation	377	2,331
Non-cash interest	533	600
Non-cash gain on conversion of convertible debentures	(84)	---
Sales-type leases	2,808	1,003
Cash collected in excess of revenue recognized	1,719	1,552
Other	(9)	(1,733)
Changes in operating assets and liabilities:		
Trade accounts receivable	2,434	(21,985)
Inventories	6,043	1,082
Other current assets	160	(294)
Accounts payable, accrued expenses and other current liabilities	(69)	1,250
Income taxes payable	4,797	5,342
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>31,941</u>	<u>15,435</u>
INVESTING ACTIVITIES		
Purchases of systems, equipment and other assets relating to lottery contracts	(19,836)	(34,366)
Purchases of property plant and equipment	(517)	(2,394)
Decrease in assets held for sale	27	---
Decrease in investments in affiliates	381	405
NET CASH USED IN INVESTING ACTIVITIES	<u>(19,945)</u>	<u>(36,355)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	1,835	23,500
Principal payments on long-term debt	(5,934)	(994)
Proceeds from issuance of common stock	100	---
Return of capital contributed by GTECH Holdings	---	(5)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(3,999)</u>	<u>22,501</u>
INVESTING AND FINANCING ACTIVITIES RELATING TO ACQUISITION		
Purchase of common stock	(16)	(3)
Payment of accrued expenses	(196)	---
NET CASH USED IN INVESTING AND FINANCING ACTIVITIES RELATING TO ACQUISITION	<u>(212)</u>	<u>(3)</u>
Effect of exchange rate changes on cash	9	(246)
INCREASE IN CASH AND CASH EQUIVALENTS	<u>7,794</u>	<u>1,332</u>
Cash and cash equivalents at beginning of period	<u>5,638</u>	<u>3,342</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 13,432</u>	<u>\$ 4,674</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

GTECH CORPORATION AND SUBSIDIARIES

MAY 30, 1992

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of GTECH Corporation ("GTECH") have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended May 30, 1992 are not necessarily indicative of the results that may be expected for the fiscal year ending February 27, 1993. For further information refer to the consolidated financial statements and footnotes thereto included in GTECH's fiscal 1992 annual report on Form 10-K.

NOTE B--INVENTORIES

Inventories consist of:

	February 29, 1992	May 30, 1992
	(Dollars in	thousands)
Purchased components	\$ 7,419	\$ 7,413
Finished subassemblies	1,885	1,709
Work-in-process	9,771	7,909
Finished goods	<u>9,022</u>	<u>9,984</u>
	<u>\$ 28,097</u>	<u>\$ 27,015</u>

NOTE C--LONG-TERM DEBT

Long-term debt consists of:

	February 29, 1992	May 30, 1992
	(Dollars in	thousands)
Term loan facility	\$ 63,640	\$ 63,640
Lottery contract facility	10,000	33,000
Puerto Rico term loan	16,600	16,600
Senior subordinated notes due 2000	115,000	115,000
Convertible subordinated debentures due 2005	11,786	11,785
Other long-term debt with various interest rates and maturities	<u>4,539</u>	<u>4,131</u>
	221,565	244,156
Less current maturities	<u>18,896</u>	<u>20,081</u>
	<u>\$ 202,669</u>	<u>\$ 224,075</u>

Reference is made to Note F herein for proposed changes in long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-(Continued)

NOTE D-REDEEMABLE PREFERRED STOCK

A summary of changes in the Redeemable Preferred Stock is as follows:

	<u>Shares</u>	<u>Amounts</u> (Dollars in Thousands)
Balance at February 29, 1992	1,146,921	\$ 27,347
Share dividends declared (in lieu of cash dividends)	47,290	1,182
Accretion of Redeemable Preferred Stock	---	83
Balance at May 30, 1992	<u>1,194,211</u>	<u>\$ 28,612</u>

Reference is made to Note F herein for proposed redemption of the Redeemable Preferred Stock.

NOTE E-INCOME TAXES

The cumulative effective income tax rate of 39% was greater than the statutory rate due primarily to state income taxes.

NOTE F-SUBSEQUENT EVENT

In June 1992, GTECH Holdings Corporation ("Holdings"), GTECH's parent corporation, filed a registration statement with the Securities and Exchange Commission covering the proposed underwritten public offering of 5,900,000 shares of its Common Stock and additional shares of Common Stock by selling stockholders, including certain members of GTECH's management and other principal stockholders (the "Offerings").

In connection with the Offerings, GTECH intends to enter into a new credit agreement providing for an unsecured revolving credit facility of up to \$300 million (the "New Credit Facilities") which will replace the 1990 Credit Facilities. The net proceeds to GTECH from the Offerings, together with borrowings under the New Credit Facilities, are intended to be used for the purpose of funding a tender offer (which already has commenced) for all of GTECH's outstanding Senior Subordinated Notes and redemption of all of GTECH's outstanding Redeemable Preferred Stock and Convertible Subordinated Debentures.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONSGeneral

GTECH's business consists primarily of providing on-line lottery services and products to governmental lottery authorities and governmental licensees worldwide. GTECH offers its customers a full range of lottery services, including the design, assembly, installation, operation and maintenance of on-line lottery systems. GTECH's lottery systems consist of numerous lottery terminals located in retail outlets, central computer systems, systems software and game software, and communications equipment which connects the terminals and the central computer systems. GTECH's lottery products include turnkey lottery systems and their components.

GTECH is the world's leading operator and supplier of computerized on-line lottery systems. GTECH operates on-line lottery systems for 24 of the 35 lottery authorities in the United States and has supplied or operates on-line lottery systems for 32 of the 40 international on-line lottery authorities.

Historically, the majority of GTECH's customers in the United States have entered into long-term service contracts pursuant to which GTECH provides, operates and maintains the customers' on-line lottery systems in return for a percentage of the gross lottery revenues. Most of GTECH's international customers have purchased their on-line lottery systems. Approximately 70% of GTECH's revenues is derived from its portfolio of long-term on-line lottery service contracts, which typically have an initial term of at least five years and usually provide the lottery authority with options to extend on the same terms and conditions for additional periods generally ranging from two to five years. In addition, GTECH's customers occasionally negotiate extensions on different terms and conditions. Substantially all of the remainder of GTECH's revenues is derived from product sales.

GTECH's service contracts are generally subject to a new competitive bidding process after the expiration of the contract term and all extensions thereof. GTECH's lottery contract in New York, for example, is currently subject to a new competitive procurement process. While GTECH does not believe that the loss of any one of its existing contracts would have a material adverse effect on GTECH's results of operations, the loss of more than one of its major contracts could, if not replaced by other business, have such an effect.

Historically, a substantial portion of product sales revenues has been derived from a relatively few, large transactions, usually involving the installation of new on-line lottery systems. The remainder of GTECH's product sales revenues has consisted almost entirely of sales of lottery terminals and equipment in connection with the expansion of existing lottery systems. The size and timing of this limited number of relatively large transactions at times has resulted in variability in product sales revenues from quarter to quarter. However, the impact of such transactions on GTECH's results of operations is expected to be mitigated to some extent as a result of the growth in the number of GTECH's product sales customers, especially customers that place larger orders with extended delivery schedules, and the expansion of existing on-line lottery systems. In addition, GTECH expects the relatively new market for replacement terminals to expand with the growth and maturation of its terminal base. As of May 30, 1992, GTECH had a backlog of orders for 7,885 replacement terminals.

SUMMARY FINANCIAL DATA

The following discussion should be read in conjunction with the table which follows.

	Three Months Ended			
	May 25, 1991		May 30, 1992	
	(Dollars in thousands)			
Revenues				
Services	\$ 53,650	68%	\$ 70,975	59%
Sales of products	24,729	32%	49,499	41%
	<u>78,379</u>	<u>100%</u>	<u>120,474</u>	<u>100%</u>
Costs and expenses				
Costs of services (a)	32,526	61%	44,555	63%
Costs of sales (a)	13,649	55%	24,821	50%
	<u>46,175</u>	<u>59%</u>	<u>69,376</u>	<u>58%</u>
Gross profit	32,204	41%	51,098	42%
Selling, general and administrative	11,288	14%	18,718	15%
Research and development	3,933	5%	5,958	5%
Operating income	<u>16,983</u>	<u>22%</u>	<u>26,422</u>	<u>22%</u>
Other income (expense):				
Interest income	701	1%	542	---
Other income	424	---	537	---
Interest expense	<u>(7,078)</u>	<u>(9%)</u>	<u>(6,456)</u>	<u>(5%)</u>
Income before income taxes	11,030	14%	21,045	17%
Income taxes	<u>7,610</u>	<u>10%</u>	<u>8,207</u>	<u>6%</u>
Net income	<u>\$ 3,420</u>	<u>4%</u>	<u>\$ 12,838</u>	<u>11%</u>

(a) Percentages are computed based on cost as a percentage of related revenue.

Results of Operations

Revenues for the first quarter of fiscal 1993 increased \$42.1 million, or 53.7%, as compared with the first quarter of fiscal 1992. Revenues from services increased \$17.3 million, or 32.3%, due primarily to higher net service revenues of \$8.7 million from GTECH's existing customer base, along with incremental revenues of approximately \$8.6 million from new lottery systems operated by GTECH which have commenced operations since May 25, 1991, primarily in Iowa, Louisiana, Maryland and Missouri.

Product sales in the first quarter of fiscal 1993, which were unusually high, were \$49.5 million, representing a \$24.8 million, or 100.2% increase over product sales in the first quarter of fiscal 1992. This change was due principally to a \$15.8 million increase in terminal sales and \$6.5 million of higher central system sales. GTECH sold 5,931 terminals during the first quarter of fiscal 1993 as compared to 3,304 terminals sold during the first quarter of fiscal 1992. GTECH sold one new central system in the first quarter of fiscal 1993 as compared to no central system sales in the first quarter of fiscal 1992.

Gross margins on service revenues decreased to 37.2% in the first quarter of fiscal 1993 from 39.4% in the first quarter of fiscal 1992, due principally to lower profit margins relating to new lottery systems which commenced operations since May 25, 1991. Since revenues from new lotteries typically grow rapidly for the first two to three years of operations and expenses remain relatively constant, gross margins for new lotteries tend to increase over time.

Gross margins on product sales fluctuate depending primarily on the mix and timing of product sales contracts. Gross margins on product sales increased to 49.9% in the first quarter of fiscal 1993 from 44.8% in the first quarter of fiscal 1992. The increase in gross margin was due primarily to a higher volume of terminal sales which generated more revenues to cover fixed period costs.

Selling, general and administrative expenses were up \$7.4 million, or 65.8%, in the first quarter of fiscal 1993 over the same period a year ago. The higher costs resulted from additional employee and administrative costs which were necessary to support expanded operations, sales activity and marketing activity. In addition, GTECH recorded non-cash stock compensation expense of approximately \$2.3 million in the first quarter of fiscal 1993 as compared to \$377,000 in the first quarter of fiscal 1992 in connection with Holding's Stock Award Plans. As a percentage of revenues, selling, general and administrative expenses were 15.5% and 14.4% during the first quarter of fiscal 1993 and 1992, respectively. Excluding non-cash stock compensation expense, selling, general and administrative expenses would have been 13.6% and 13.9% of revenues during the first quarter of fiscal 1993 and 1992, respectively.

Research and development expenses were up \$2.0 million, or 51.5%, in the first quarter of fiscal 1993 as compared to the same period a year ago. The higher costs resulted from increased activity relating to the development of new lottery equipment and software (including video lottery) and new lottery games for GTECH's higher base of customers. As a percentage of revenues, research and development expenses were 4.9% and 5.0% during the first quarter of fiscal 1993 and 1992, respectively.

Interest expense decreased by \$622,000, or 8.8%, during the first quarter of fiscal 1993 as compared to the same period a year ago due primarily to lower average interest rates which were partially offset by higher average debt outstanding. The lower interest rates resulted in part from GTECH's achievement of an interest coverage ratio specified in the 1990 Credit Facilities during the second quarter of fiscal 1992 which decreased the interest rate on the debt outstanding under the 1990 Credit Facilities by one and one-half percentage points to Libor plus 1%.

The cumulative effective income tax rate of 39% for the three months ended May 30, 1992 was greater than the statutory rate due primarily to state income taxes.

Changes in Financial Position, Liquidity and Capital Resources

During the first quarter of fiscal 1993, GTECH generated cash from operating activities of \$15.4 million. This cash, together with \$23.5 million from long-term borrowings, was used primarily to purchase \$34.4 million of systems, equipment and other assets relating primarily to the on-going installation of the Texas and West Virginia lottery systems along with the completion of 1,000 video lottery terminals for the Oregon lottery. In addition, GTECH purchased \$2.4 million of property, plant and equipment in the first quarter of fiscal 1993, comprised of leasehold improvements and new equipment to support the expanded operations and marketing activity including the video lottery business.

Trade accounts receivable increased \$22.0 million during the first three months of fiscal 1993 due primarily to the increase in product sales in the first quarter of fiscal 1993 as compared to the fourth quarter of fiscal 1992 and due to a \$5.0 million receivable with deferred payment terms which is scheduled for collection in the fourth quarter of fiscal 1993.

The principal sources of liquidity for GTECH in the next several years are expected to be cash from operations and borrowings. GTECH's existing 1990 Credit Facility provided for borrowing capacity at May 30, 1992 (in addition to its term loan of which \$63.6 million was outstanding) as follows: \$69.5 million pursuant to a lottery contract facility (which is available, subject to certain limitations, for future capital expenditures in connection with new lottery contracts and extensions of existing lottery contracts) under which facility there were \$33 million of borrowings outstanding at May 30, 1992; \$51 million pursuant to a letter of credit facility of which \$35.6 million had been utilized at May 30, 1992, with the remainder available for issuance's in the ordinary course of business; and \$20 million pursuant to a working capital facility, under which facility \$500,000 was outstanding at May 30, 1992 and of which a portion is reserved to fund payments which will be required if outstanding Convertible Subordinated Debentures are submitted for conversion, with the remainder available for general corporate purposes.

While there can be no assurance, GTECH believes that its cash flow from operations and available borrowings will be sufficient to permit it to meet its anticipated working capital and internal capital expenditure needs, to service its debt obligations and to permit it to fund anticipated growth for at least the next twelve months. On a long term basis, assuming GTECH's business continues to expand, GTECH may require additional funds to finance additional Lottery Contracts and other potential new business beyond those presently provided for in its existing 1990 Credit Facility.

In June 1992, Holdings filed a registration statement with the Securities and Exchange Commission covering the proposed underwritten public offering of 5,900,000 shares of its Common Stock and additional shares of Common Stock by selling stockholders, including certain members of GTECH's management and other principal stockholders (the "Offerings"). In connection with the Offerings, GTECH intends to enter into a new credit agreement providing for an unsecured revolving credit facility of up to \$300 million (the "New Credit Facilities") which will replace the 1990 Credit Facilities. The net proceeds to GTECH from the Offerings, together with borrowings under the New Credit Facilities, are intended to be used for the purpose of funding a tender offer (which already has commenced) for all of GTECH's outstanding Senior Subordinated Notes and redemption of all of GTECH's outstanding Redeemable Preferred Stock and Convertible Subordinated Debentures.

If the Offerings and New Credit Facilities are not consummated, GTECH anticipates that it would seek to obtain any necessary additional funds through additional credit from its existing lenders, borrowings from new lenders and/or other sources.

Inflation and Foreign Exchange Fluctuation

The impact of inflation on GTECH's operations has not been significant to date. While GTECH does not believe that its business is highly sensitive to inflation, there can be no assurance that a high rate of inflation in the future would not have an adverse effect on GTECH's operations. Because GTECH's bank borrowings will be at fluctuating rates, rising interest rates could have an adverse impact on GTECH's profitability and its cash flow.

GTECH attempts to manage its foreign exchange risk by securing payment from its customers in U.S. dollars, by sharing risk with its customers and by entering into forward exchange contracts. In addition, a significant portion of the costs attributable to GTECH's foreign currency revenues are incurred in the local currencies.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

GTECH is party to various legal proceedings and claims. See Item 3 of GTECH's Report on Form 10-K for the fiscal year ended February 29, 1992 and Note P to the Consolidated Financial Statements contained therein. Although it is not possible to determine the outcome of these proceedings and claims at this stage, management believes that the disposition of these matters will not materially adversely affect GTECH's consolidated financial position or results of operations.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits - Not applicable
- (b) GTECH did not file any reports on Form 8-K during the quarter to which this report relates.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GTECH CORPORATION

Date 6/26/92

By

Guy B. Snowden
Guy B. Snowden, Co-Chairman, Chief Executive
Officer, President (Principal Executive Officer)
and Director

Date 6/26/92

By

Robert J. Plourde
Robert J. Plourde, Vice President and Corporate
Controller (Principal Accounting Officer)

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FORM 10-Q

MAY 1 1992

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992

Commission file number 0-19347

HOME HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3584978

(State of incorporation)

(I.R.S. Employer
Identification No.)

59 Maiden Lane, New York, New York

10038-4548

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (212) 530-6600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

At March 31, 1992 there were 150,000 shares of registrant's common stock, par value \$.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOME HOLDINGS INC.
Consolidated Statement of Income
For the Quarter ended March 31
(\$ millions)

	<u>1992</u>	<u>1991</u>
Revenues:		
Earned premiums	\$ 433	423
Insurance net investment income	71	74
Realized gains on investments	6	7
Investment services	<u>99</u>	<u>76</u>
Total revenues	<u>609</u>	<u>580</u>
Operating expenses:		
Losses and loss adjustment expenses	351	353
Policy acquisition and other insurance expense	120	125
Investment services	90	72
Corporate interest expense	14	15
Other expenses	<u>5</u>	<u>2</u>
Total expenses	<u>580</u>	<u>567</u>
Income before income taxes	29	13
Income taxes	(2)	-
Preferred dividends of subsidiary	<u>(5)</u>	<u>(6)</u>
Net income	<u>\$ 22</u>	<u>7</u>

See notes to consolidated financial statements.

HOME HOLDINGS INC.
Consolidated Balance Sheet
(\$ millions)

<u>Assets</u>	March 31, <u>1992</u>	December 31, <u>1991</u>
Investments of insurance companies:		
Fixed maturities, principally at amortized cost (market \$3,390 and \$3,408)	\$ 3,276	3,212
Equity securities at market (cost \$102 and \$104)	113	112
Investments held for sale at lower of cost or market (market \$66 and \$79)	54	75
Short-term investments	<u>221</u>	<u>249</u>
Total investments of insurance companies	3,664	3,648
Cash	30	27
Accrued investment income	76	76
Investments of investment services subsidiaries at market	290	203
Premiums receivable	943	903
Receivable from brokers, dealers and customers	864	737
Deferred policy acquisition costs	128	138
Goodwill	251	252
Other assets	<u>281</u>	<u>265</u>
Total assets	<u>\$ 6,527</u>	<u>6,249</u>
<u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Unpaid losses and loss adjustment expenses	2,972	3,012
Unearned premiums	804	797
Payable to brokers, dealers and customers	650	613
Investment services debt	226	108
Corporate debt	513	516
Other liabilities	776	642
Preferred stock of subsidiary	161	161
Stockholders' equity:		
Junior preferred stock series A, B, and C	-	-
Common stock	-	-
Paid-in capital	363	376
Retained income	32	17
Unrealized gains on investments of insurance companies	11	8
Currency translation adjustments	<u>(1)</u>	<u>(1)</u>
Total stockholders' equity	<u>425</u>	<u>400</u>
Total liabilities and stockholders' equity	<u>\$ 6,527</u>	<u>6,249</u>

See notes to consolidated financial statements.

HOME HOLDINGS INC.
Consolidated Statement of Cash Flows
For the Quarter ended March 31
(\$ millions)

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net income	\$ 22	7
Adjustments to reconcile net income to net cash used for operating activities:		
Realized gains on investments	(6)	(7)
Deferred policy acquisition costs	10	(3)
Unpaid losses and loss adjustment expenses	(40)	(34)
Premiums and net reinsurance balances receivable	(42)	(41)
Unearned premiums	7	32
Investment services investments, net of payables	(37)	(41)
Investment services receivables, net of payables	(90)	(18)
Other	<u>7</u>	<u>42</u>
Net cash used for operating activities	<u>(169)</u>	<u>(63)</u>
Cash flows from investing activities:		
Purchase of Home including deferred payments, net of cash acquired of \$26 million in 1991	(2)	(554)
Sales of insurance investments	311	371
Purchases of insurance investments	(347)	(360)
Short-term insurance investments, net	28	103
Insurance investment transactions in the course of settlement	67	(32)
Other	<u>-</u>	<u>(9)</u>
Net cash provided by (used for) investing activities	<u>57</u>	<u>(481)</u>
Cash flows from financing activities:		
Stock issuance	-	235
Increase in investment services debt, net	118	53
Increase in corporate debt	-	363
Decrease in corporate debt	(3)	-
Payments by Home to former parent	-	(44)
Debt issue expense and other	<u>-</u>	<u>(23)</u>
Net cash provided by financing activities	<u>115</u>	<u>584</u>
Net increase in cash	3	40
Cash at beginning of period	<u>27</u>	<u>-</u>
Cash at end of period	<u>\$ 30</u>	<u>40</u>
Interest paid	<u>\$ 15</u>	<u>9</u>
Income taxes paid	<u>\$ 1</u>	<u>-</u>

See notes to consolidated financial statements.

HOME HOLDINGS INC
Notes to Consolidated Financial Statements

1 Accounting Policies

Home Holdings Inc. ("the Company") follows the accounting policies set forth in the 1991 Annual Report on Form 10-K ("Annual Report") filed with the Securities and Exchange Commission ("SEC"). Users of financial information produced for interim periods are encouraged to refer to the footnotes contained in the Annual Report when reviewing interim financial results.

The accompanying interim consolidated financial statements are unaudited and subject to year-end adjustments. In the opinion of management, the interim financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and results of operations. Results for interim periods are not necessarily indicative of results for the full year.

2 Litigation

The Home Insurance Company ("Home"), a subsidiary of the Company, in common with the insurance industry, is subject to litigation, including claims for punitive damages and for extra-contractual damages, in the normal course of its business. Gruntal Financial Corp. ("Gruntal"), a subsidiary of Home, in the ordinary course of its business, has been named as a defendant or co-defendant in a number of lawsuits, including class actions, and arbitration proceedings, some of which involve claims for damages in substantial or unspecified amounts.

Fourteen complaints involving AmBase Corporation ("AmBase"), the former parent of Home, have been consolidated under the caption "In re AmBase Corporation Securities Litigation". The consolidated complaint names as defendants AmBase and the Company's subsidiaries, Home and Home Group Funding Corporation ("HGFC"), certain current and former directors and officers of AmBase as well as certain other parties. The complaint states that the defendants published false and misleading information and failed to disclose certain facts concerning the financial condition of AmBase and its subsidiaries. The defendants, including Home and HGFC, have filed motions to dismiss the complaint on the grounds that there is no basis for an action against them. It is not possible at this time to predict the outcome of this action, or the effect it might have on the financial condition of HGFC. The Company does not believe that the outcome of this action will have a material adverse effect on its financial condition.

3 Subsequent Events

On April 30, 1992, as a result of the consummation of the plan of reorganization of the Drexel Burnham Lambert ("Drexel") bankruptcy, Home received a cash distribution of \$13 million with respect to advances of \$43 million made to Drexel under a master note. The investment in Drexel was fully written-off in 1990. Accordingly, Home will recognize a realized gain from the above-mentioned distribution. In addition, Home received certificates of beneficial interest in a liquidating trust the value of which has not been determined.

On April 10, 1992, the Company commenced a tender offer to purchase all its outstanding 14 7/8% senior subordinated notes, approximately \$60 million aggregate principal amount, at 113% of the principal amount of the notes plus accrued interest. As of May 13, 1992, the expiration date of the offer, \$29,647,000 principal amount had been tendered and accepted for payment. The repurchase is being financed by a loan from Trygg-Hansa SPP Holding AB ("THSH"), a shareholder, that is payable in installments due in 1997 and 1998 with interest at the five year treasury rate, as defined in the loan agreement. On May 11, 1992, the Company redeemed \$47 million of 11 3/4% sinking fund debentures at a redemption price of 104.331% of the principal amount of the debentures plus accrued interest. The redemption was financed by a \$49 million loan from THSH that is payable in annual installments through 2005 with interest at 12.25%.

HOME HOLDINGS INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Contributions to revenues and income before income taxes for the first quarter of 1992 and 1991 are presented below.

(\$ millions)	1992	1991
Revenues:		
Insurance:		
Earned premiums	\$ 433	423
Net investment income	71	74
Realized gains on investments	6	7
	510	504
Investment services	99	76
	<u>\$ 609</u>	<u>580</u>
Income before income taxes:		
Insurance:		
Underwriting loss	\$ (38)	(55)
Net investment income	71	74
Realized gains on investments	6	7
	39	26
Investment services	9	4
Corporate interest expense	(14)	(15)
Other expenses	(5)	(2)
	<u>\$ 29</u>	<u>13</u>

Insurance

Gross premiums written increased \$27 million to \$666 million in the first quarter of 1992 compared with the same period in 1991 primarily due to an overall increase in new and renewal business in major accounts, commercial lines and specialty lines. This increase was partially offset by a decision to cease accepting new personal lines business, where permitted by state laws, after January 31, 1992. Net premiums written decreased \$15 million to \$440 million in the first quarter of 1992 compared with the same period in 1991 due to ceded premiums of \$62 million relating to a 75% personal property quota share treaty and an 85% personal umbrella quota share treaty entered into in connection with the personal lines withdrawal. Earned premiums increased \$10 million to \$433 million in 1992, reflecting an increase in net premiums written in major accounts, commercial lines and specialty lines, partially offset by a decrease in personal lines. Underwriting losses decreased to \$38 million in the first quarter of 1992 from \$55 million in the same 1991 period partially due to unusually high losses reported by the National Workers' Compensation Reinsurance Pool in 1991.

Insurance net investment income decreased to \$71 million in the first quarter of 1992 from \$74 million in the same period in 1991 primarily due to lower investment yields resulting from a program to upgrade the credit quality and shorten the average maturity of the portfolio and from a general decline in interest rates partially offset by higher average portfolio levels. Net realized gains on investments were \$6 million in the first quarter of 1992 compared with \$7 million in the same period in 1991. At March 31, 1992 the carrying value and market value of non-investment grade debt securities was \$82 million and \$93 million, respectively, which included non-performing securities with a carrying value and market value of \$26 million and \$30 million, respectively.

HOME HOLDINGS INC.

Investment Services

Investment services revenues increased \$23 million, or 30%, to \$99 million in the first quarter of 1992 compared with the same period in 1991 mainly due to increased principal transaction revenues. Principal transaction revenues increased \$16 million, or 46%, in the first quarter of 1992 compared with the same period in 1991 due to greater proprietary trading, sales of over-the-counter securities and sales of fixed income securities products. Commission revenues increased \$2 million, or 11%, during the 1992 first quarter from the same period last year due to increased retail investor participation and share volume on the New York Stock Exchange. Underwriting and investment banking revenues increased \$2 million, or 25%, in the first quarter of 1992 compared with the same period in 1991 as a result of increased syndicate and mutual fund revenues. Investment services expenses increased \$18 million to \$90 million in 1992 compared with 1991 primarily due to increased incentive compensation payments relating to the higher level of compensable revenues. Investment services income before income taxes was \$9 million in the first quarter of 1992 compared with \$4 million in the same 1991 period.

Other

Corporate interest expense was \$14 million and \$15 million in 1992 and 1991, respectively, and preferred dividends of subsidiary were \$5 million and \$6 million, respectively.

Other results reflect expenses of \$5 million in 1992 compared with \$2 million in 1991. The increase in 1992 was primarily due to a \$2 million payment for the settlement of a litigated matter.

Income tax expense in 1992 was comprised of state and foreign taxes. No federal income tax expense was recorded in 1992 or 1991 due to the realization of tax benefits arising from the excess of the tax basis over the book basis of net assets.

Financial Condition

The Company's internal sources of funds consist primarily of dividends and payments received under a tax sharing agreement from Home. Since Home is subject to regulatory restrictions on the amount of dividends that may be paid, its earnings are not necessarily available to the Company on a current basis. During the first quarter of 1992 and 1991, the Company received dividends of \$13 million and \$20 million, respectively, from Home.

The amount of business a property and casualty insurance company may write is based, in part, on the amount of its policyholders' surplus, as determined in accordance with applicable insurance regulations. The consolidated policyholders' surplus of Home was \$925 million at March 31, 1992 compared with \$901 million at December 31, 1991. At March 31, 1992, the statutory premiums-to-surplus ratio of Home was 1.9 to 1.

Proposition 103 (the "Proposition") was passed by the voters in California in November 1988. The Proposition, among other things, mandated a rollback of "charges" on most property and casualty lines of insurance. Home has filed financial data with the California Department of Insurance (the "California Department") in support of requested premium levels for rates charged during the rollback period, November 8, 1988 to November 7, 1989, and the prior approval period, commencing November 8, 1989. In January 1991, an all-lines rate freeze was imposed prohibiting rate increases for pending and new rate applications. Emergency regulations implementing the proposition were issued by the California Department, but the California Office of Administrative Law ("OAL") disapproved them on January 10, 1992. However, the Governor, in an opinion issued on February 14, 1992, overruled the OAL, thereby rendering the emergency regulations valid for 120 days. Home is participating in a lawsuit challenging the contents of the regulations. Home has been given notice by the California Department that a hearing

HOME HOLDINGS INC.

will be held to review its rate filings. No specific date has been set for the hearing and, at present, there can be no assurance that the California Department will not mandate a rollback and prospective reduction of rates. Home believes that the impact of such measures on operations will not be material and, accordingly, no provision has been made in the accompanying financial statements for any liability or loss.

Cash used for operating activities was \$160 million in the first quarter of 1992 compared with \$63 million in the same period in 1991. Cash used for insurance operations was \$42 million in the first quarter of 1992, as a result of a \$31 million payment relating to the personal lines quota share treaties effective February 1, 1992. Cash used for investment services operations was \$115 million, reflecting an increase in investments financed by bank loans.

Certain minimum amounts of capital must be maintained by Gruntal's broker-dealer subsidiaries to satisfy the requirements of the Uniform Net Capital Rule (Rule 15c3-1) of the SEC and the capital rules of other regulatory authorities. At March 31, 1992, the net capital of Gruntal & Co., Gruntal's principal broker-dealer subsidiary, as defined by the SEC and other regulatory authorities, was \$56 million, which was \$46 million in excess of the aggregate minimum required.

HOME HOLDINGS INC.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - none

(b) The registrant was not required to file a Current Report on Form 8-K during the quarter ended March 31, 1992.

HOME HOLDINGS INC.

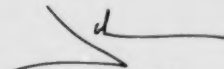
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOME HOLDINGS INC.

May 14, 1992

by

A handwritten signature in dark ink, appearing to read 'JAN EVELAND', is written over a horizontal line. A curved line extends from the bottom of the signature towards the left, pointing towards the word 'by'.

JAN EVELAND
Vice President,
Chief Financial Officer
and Treasurer

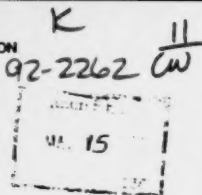
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q



(Mark one)

☒ Quarterly Report Pursuant To Section 13 or 15 (d) of the Securities Exchange Act of 1934For the quarterly period ended March 31, 1992

OR

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to.....

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with the reduced disclosure format.

Commission file number 0-19277

ITT HARTFORD GROUP, INC.

Incorporated in the State of Delaware

13-3317783

(I.R.S. Employer
Identification Number)1330 Avenue of the Americas
New York, New York 10019-5490
(Principal Executive Offices)

Telephone Number (212) 258-1000

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11 11 MDMicrofilmed by
Q-Data Corp. - St. Petersburg, FLIndicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No

As of May 13, 1992, there was outstanding 1 share of common stock, \$1 par value per share, of the registrant, which is owned by ITT Corporation.

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- Omitted pursuant to General Instruction H(2) of Form 10-Q.
- Item prepared in accordance with General Instruction H(2) of Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 9.

Financial Statements

The following unaudited financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. Interim results are not necessarily indicative of the results which may be expected for any other interim period or for the full year. For a description of accounting policies, see notes to financial statements in the Form 10-K.

ITT HARTFORD GROUP, INC. AND SUBSIDIARIES Consolidated Statements of Income (In millions)

	Three Months Ended	
	March 31,	
	1992	1991
	(Unaudited)	
Revenues		
Property and casualty insurance revenues (net of increase in unearned premiums of \$79 and \$47)	\$ 1,509	\$ 1,533
Life and health insurance revenues	296	258
Net investment income	605	469
	<u>2,410</u>	<u>2,260</u>
Benefits, claims and expenses		
Benefits, claims and claim adjustment expenses:		
Property and casualty	1,209	1,157
Life and health	430	341
Amortization of deferred policy acquisition costs	358	346
Other insurance expenses	241	242
	<u>2,238</u>	<u>2,086</u>
Income before income tax and dividends on redeemable preferred stock of consolidated subsidiary	172	174
Income tax expense	47	40
Dividends on redeemable preferred stock of consolidated subsidiary	<u>(4)</u>	<u>(4)</u>
Net income	\$ 121	\$ 130

FTT HARTFORD GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In millions)

	March 31, 1992 (Unaudited)	December 31, 1991
Assets		
Investments:		
Fixed maturities, at amortized cost	\$ 22,719	\$ 21,956
Equity securities, at market	475	409
Real estate, at cost	466	468
Other long term investments	571	561
	<u>24,231</u>	<u>23,394</u>
Cash	59	78
Premiums receivable and agents' balances	2,108	2,074
Deferred policy acquisition costs	1,325	1,268
Deferred income tax	225	174
Other assets	2,664	2,720
Separate account assets	7,261	6,966
	<u>\$ 37,873</u>	<u>\$ 36,674</u>
Liabilities		
Future policy benefits, unpaid claims and claim adjustment expenses:		
Property and casualty	\$ 9,843	\$ 9,796
Life and health	2,297	2,255
Other policy claims and benefits payable	8,802	8,140
Unearned premiums	2,452	2,399
Bank loans and other short-term debt	555	583
Long-term debt	586	594
Other liabilities	2,086	2,014
Separate account liabilities	7,261	6,966
	<u>33,882</u>	<u>32,747</u>
Redeemable preferred stock of subsidiary	292	292
Stockholders Equity		
Preferred stock of subsidiary owned by parent	19	19
Common stock - authorized, issued and outstanding		
1 share, \$1 per value	--	--
Capital surplus	760	760
Unrealized loss on equity securities, net of taxes	(17)	(21)
Cumulative translation adjustments	33	82
Retained earnings	2,904	2,795
	<u>3,699</u>	<u>3,635</u>
	<u>\$ 37,873</u>	<u>\$ 36,674</u>

ITT HARTFORD GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In millions)

	Three Months Ended March 31,	
	1992	1991
	(Unaudited)	
Operating Activities		
Net income	\$ 121	\$ 130
Adjustments to net income:		
Net realized investment gains before tax	(117)	(43)
Gain on sale of minority interest in unconsolidated subsidiary	(10)	--
Increase in deferred policy acquisition costs	(73)	(23)
Depreciation and amortization	17	18
Accretion of investment discount	(38)	(31)
Deferred income tax	(47)	(17)
Increase in premiums receivable and agents' balances	(55)	(93)
(Increase) decrease in other assets	51	(183)
Increase in liabilities for future policy benefits and unpaid claims	182	164
Increase in unearned premiums	89	49
Increase in other liabilities	121	162
Cash from operating activities	<u>241</u>	<u>133</u>
Investing Activities		
Purchases of fixed maturity investments	(4,997)	(2,681)
Proceeds from sales of fixed maturity investments	3,090	1,662
Maturities & principal paydowns of long-term investments	429	206
Purchases of other investments	(233)	(176)
Proceeds from sales of other investments	150	379
Net sales of short-term fixed maturity investments	622	85
Proceeds from sale of minority interest in unconsolidated subsidiary	45	--
Cash used for investing activities	<u>(#94)</u>	<u>(525)</u>
Financing Activities		
Decrease in bank loans & other short-term debt	(26)	(5)
Dividends paid on common stock	(12)	(12)
Receipts from investment and universal life-type contracts credited to policyholder account balances	1,143	774
Return of policyholder account balances on investment and universal life-type contracts	(472)	(352)
Cash from financing activities	<u>633</u>	<u>405</u>
Net increase (decrease) in cash	(20)	13
Cash at beginning of period	78	35
Impact of foreign exchange	1	(12)
Cash at end of period	<u>\$ 59</u>	<u>\$ 46</u>
Supplemental Disclosure of Cashflow Information:		
Cash paid during the period for:		
Income taxes	\$ 48	\$ 31
Interest expense	<u>26</u>	<u>14</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Three Months Ended March 31, 1992 and 1991****Consolidated Operating Results**

ITT Hartford's consolidated net income for the first quarter of 1992 was \$121 million, down \$9 million, or 7 percent, from the same period in 1991. This decrease was largely the result of lower property and casualty underwriting results combined with the inclusion in the first quarter of 1991 of a \$10 million after tax favorable reserve settlement associated with the 1985-86 sale of Abbey U.K. Increased realized capital gains and the gain on sale of equity interest in a broker dealer partially offset these lower results.

ITT Hartford presently plans to adopt new accounting standards related to income taxes and post-retirement benefits other than pensions in the 1992 second quarter. Reference is made to ITT Hartford Group, Inc.'s Form 10-K for the year ended December 31, 1991 for additional information.

Environmental and Asbestos Issues

Within the insurance industry, asbestos-related and environmental pollution claims continue to involve unresolved issues regarding liability exposures and policy coverage. Courts in different jurisdictions have reached disparate results on similar issues. Some courts have held that pollution exclusions in liability policies are operable while other courts have held they are ambiguous and inoperable in certain factual contexts. In the case of asbestos, it is uncertain whether some courts would hold that the existence of asbestos in buildings constitutes "property damage" within the meaning of relevant insurance policies nor is it certain when the alleged "property damage" would be deemed to have "occurred" and what policies would be triggered as a consequence. Further, if coverage is held to exist, many insurance policies, especially at the excess level, have combined bodily injury and property damage limits. To the extent policy limits are used for bodily injury claims, they may not be available for property damage claims (many policyholders are involved in both types). Reference is made to ITT Hartford Group, Inc.'s Form 10-K for the year ended December 31, 1991 for additional information.

Reinsurance

ITT Hartford cedes insurance to other insurers to manage business diversification and minimize its maximum net loss arising from large risks or from hazards of catastrophic occurrences. The ceding of insurance does not discharge ITT Hartford's primary liability to its policyholders. Reference is made to ITT Hartford Group, Inc.'s Form 10-K for the year ended December 31, 1991 for additional information.

Property and Casualty Insurance Operations (in millions):

	Three Months Ended March 31,	
	1992	1991
	(Unaudited)	
Written premiums	\$ 1,588	\$ 1,581
Insurance revenues:		
Commercial	\$ 918	\$ 910
Personal	368	369
International	223	254
Net investment income	312	256
Total revenues	1,821	1,789
Claims and expenses	1,711	1,651
Income before income tax and dividends on redeemable preferred stock of consolidated subsidiary	110	138
Income tax expense	26	29
Dividends on redeemable preferred stock of consolidated subsidiary	(4)	(4)
Net income	\$ 80	\$ 105

Worldwide property and casualty net income for the first quarter of 1992 decreased \$25 million, or 24 percent, from the same period in 1991. Lower underwriting results in both the domestic and international operations, the result of increased workers' compensation claims costs, adverse development in reinsurance areas, and continued difficult economic conditions in Europe accounted for the decrease. Also contributing to the adverse comparison of quarterly results was the inclusion in the first quarter of 1991 of a \$10 million after tax favorable reserve settlement associated with the 1985-86 sale of Abbey U.K. A \$37 million increase in realized gains over prior year in domestic casualty operations partially offset the lower underwriting results.

In the first quarter, written premiums from worldwide property and casualty operations of \$1.6 billion increased slightly over the first quarter of 1991. Premiums from international operations increased \$51 million from the comparable period in 1991, while domestic premiums decreased \$44 million.

Life and Health Insurance Operations (in millions):

Three Months Ended
March 31,
1992 1991
(Unaudited)

Written Premiums and other considerations	\$ 316	\$ 270
Insurance Revenues:		
Group	\$ 227	\$ 216
Other	69	42
Net investment income	<u>293</u>	<u>213</u>
Total revenues	589	471
Benefits and expenses	<u>527</u>	<u>435</u>
Income before income tax	62	36
Income tax expense	<u>21</u>	<u>11</u>
Net income	<u>\$ 41</u>	<u>\$ 25</u>

Life and health operations first quarter net income of \$41 million increased \$16 million over the comparable period in 1991. This improvement was primarily due to increased realized gains combined with Hartford Life and Accident's \$6.0 million after tax gain on the sale of its 22 percent equity interest in Piper Jaffray, a broker dealer. Net investment income of \$293 million rose \$80 million, or 38 percent, over the first quarter of 1991. This increase was due largely to the cashflow associated with investment-type products combined with increased realized gains.

Written premiums and other considerations for worldwide life and health operations increased \$46 million to \$316 million, 17 percent above 1991. Deposit premiums on investment-type products, which are not reported as premiums or revenues were \$1.5 billion, an increase of \$559 million over the first quarter of 1991.

Liquidity and Capital Resources

The liquidity requirements of ITT Hartford have been met principally by funds from operations of subsidiaries combined with long and short term borrowings. The principal sources of funds were premiums and investment income as well as maturities and sales of invested assets. The primary uses of funds were to pay claims, policy benefits, operating expenses and commissions and to purchase new investments. ITT Hartford believes its current and future liquidity needs will continue to be met from operations of subsidiaries, issuance of commercial paper, bank borrowings, and issuance of debt securities. In addition, ITT Hartford carries a significant short term investment position and accordingly does not anticipate selling intermediate and long-term fixed maturity investments to meet any liquidity needs.

Capitalization, which consists principally of stockholders equity, was \$3.7 billion and \$3.6 billion as of March 31, 1992 and December 31, 1991, respectively.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

ITT Hartford reported in previously filed Forms 10, 10-K and 10-Q, that The Hartford along with thirty other companies, associations, and organizations, has been named as a defendant in a group of lawsuits filed by Attorneys General of twenty states and by various private parties in the District Court for the Northern District of California. All such lawsuits, which were filed in 1988, 1990, and 1991 were based upon allegations that the defendants violated the U.S. and/or state antitrust laws by reason of their activities in connection with the development of new standard Commercial General Liability ("CGL") Policy Forms by the Insurance Services Office. The state suits seek civil penalties and fines, unspecified damages and various forms of injunctive relief. The private suits seek unspecified treble damages and various forms of injunctive relief. On June 18, 1991, the Ninth Circuit Court of Appeals reversed the United States District Court for the Northern District of California which had granted summary judgment in September of 1989 in favor of all defendants, including The Hartford. The defendants on July 2, 1991 filed a Motion for Rehearing and Suggestion for Rehearing En Banc in the Ninth Circuit Court of Appeals; the motion was denied. On January 10, 1992 the defendants, including The Hartford, filed a petition for certiorari to the United States Supreme Court. The Supreme Court has not yet acted on the petition.

ITT Hartford is a defendant in various other lawsuits arising out of its business. It is the opinion of management of ITT Hartford that the final outcome of these matters will not have a material adverse impact on the consolidated financial position of ITT Hartford.

Item 6. Exhibits and Reports on Form 8-K.

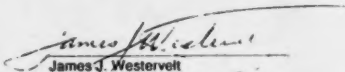
(a) See Exhibit Index

(b) ITT Hartford did not file a Form 8-K during the quarter covered by this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ITT Hartford Group, Inc.
(Registrant)

A handwritten signature in dark ink, appearing to read "James J. Westervelt", is written over a horizontal line.

James J. Westervelt
Vice President and Assistant
Controller
(Chief Accounting Officer)

May 13, 1992

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>	<u>Location</u>
(2)	Plan of acquisition, reorganization, arrangement liquidation or succession	None
(4)	Instruments defining the rights of security holders, including indentures	None
(11)	Statement re computation of per share earnings	None
(15)	Letter re unaudited interim financial information	None
(18)	Letter re change in accounting principles	None
(19)	Previously unfiled documents	None
(20)	Report furnished to security holders	None
(23)	Published report regarding matters submitted to vote of security holders	None
(24)	Consents of experts and counsel	None
(25)	Power of attorney	None
(28)	Additional exhibits	None



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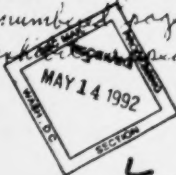
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

This filing consists of 19 22
 sequentially numbered pages.
 The index to exhibits is on page 17.



92-2862

FORM 10-Q

Quarterly Report Pursuant to section 13 or 15 (d) of
 the Securities and Exchange Act of 1934

For the Quarter ended
March 31, 1992

Commission File Number
 0-14903

Baldwin Piano & Organ Company
 (Exact name of registrant as specified in its charter)

Delaware
 (State or other jurisdiction of
 incorporation or organization)

31-1091612
 (IRS Employer
 Identification No.)

422 Wards Corner Road
 Loveland, Ohio
 (Address of Principal Executive Offices)

45140-8390
 (Zip Code)

Registrant's telephone number, including area code (513) 576-4500

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

The number of shares of the Common Stock outstanding of Baldwin Piano & Organ Company ("Company"), as of May 1, 1992 is 3,399,144.

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BALDWIN PIANO & ORGAN COMPANY

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PART I. FINANCIAL INFORMATION

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BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 1992 and December 31, 1991

ASSETS	March 31, 1992	December 31, 1991
Current assets:		
Cash	\$ 456,425	\$ 1,184,122
Receivables, net	6,294,446	5,252,605
Inventories	49,146,839	47,552,294
Deferred income taxes	3,889,801	4,024,801
Other current assets	<u>1,706,459</u>	<u>1,133,452</u>
Total current assets	<u>61,493,970</u>	<u>59,147,274</u>
Installment receivables, less current portion	6,590,000	6,707,000
Property, plant and equipment, net	14,578,479	14,827,262
Other assets	<u>6,077,635</u>	<u>6,178,454</u>
Total assets	<u>\$88,740,084</u>	<u>\$86,859,990</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$24,014,269	\$18,228,936
Current portion of long-term debt	1,821,072	6,321,072
Accounts payable	1,691,548	1,584,155
Income taxes payable	1,228,638	1,568,690
Accrued liabilities	<u>4,539,182</u>	<u>4,661,231</u>
Total current liabilities	<u>33,294,709</u>	<u>32,364,084</u>
Long-term debt, less current portion	6,711,780	7,167,048
Deferred income taxes	3,161,622	3,109,946
Other liabilities	4,975,231	4,992,101
Stockholders' equity:		
Common stock	41,479	41,479
Additional paid-in capital	11,900,510	11,900,510
Retained earnings	<u>34,846,069</u>	<u>32,476,138</u>
Less cost of common shares in treasury	<u>46,788,058</u>	<u>45,418,127</u>
(6,191,316)	<u>(6,191,316)</u>	<u>(6,191,316)</u>
Total stockholders' equity	40,596,742	39,226,811
Commitments and contingent liabilities		
Total liabilities and stockholders' equity	<u>\$88,740,084</u>	<u>\$86,859,990</u>

See accompanying Notes to Interim Consolidated Financial Statements.

BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Three months ended
March 31, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Net sales	\$26,440,745	\$24,613,698
Cost of goods sold	<u>19,154,335</u>	<u>17,602,305</u>
Gross profit	7,286,410	7,011,393
Income on the sale of installment receivables	1,290,095	888,628
Interest income on installment receivables.	80,421	53,477
Other operating income	<u>1,066,704</u>	<u>1,004,431</u>
	9,723,630	8,957,929
Operating expenses:		
Selling, administrative and general	6,229,560	5,884,181
Provision for doubtful accounts	<u>498,574</u>	<u>368,029</u>
Operating profit	2,995,496	2,705,719
Interest expense	<u>640,565</u>	<u>1,048,284</u>
Earnings before income taxes	2,354,931	1,657,435
Income taxes	<u>985,000</u>	<u>676,000</u>
Net earnings	<u>\$ 1,369,931</u>	<u>\$ 981,435</u>
Net earnings per share	<u>\$.40</u>	<u>\$.29</u>

See accompanying Notes to Interim Consolidated Financial Statements.

BAJ-DWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Three months ended
March 31, 1992 and 1991

<u>Increase (Decrease) in Cash</u>	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net earnings	\$ 1,369,931	\$ 981,435
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	622,965	542,872
Provision for doubtful accounts ..	498,574	368,029
Change in assets and liabilities:		
Trade receivables	(1,499,160)	(836,207)
Inventories	(1,594,545)	(180,031)
Other current assets	(573,007)	(121,540)
Other assets	57,865	23,061
Accounts payable and accrued liabilities	(14,656)	(546,199)
Income taxes payable	(340,052)	(466,215)
Deferred taxes	186,676	31,055
Other liabilities	(16,870)	3,714
Net cash used in operating activities	<u>(1,302,279)</u>	<u>(200,026)</u>
Cash flows from investing activities:		
Installment receivables written	(10,150,214)	(7,397,203)
Installment receivables liquidated	1,731,616	776,085
Proceeds from sale of installment receivables	8,494,343	6,859,730
Additions to property, plant and equipment	<u>(331,228)</u>	<u>(131,049)</u>
Net cash (used in) provided by investing activities	<u>(255,483)</u>	<u>107,563</u>
Cash flows from financing activities:		
Net borrowing on short-term notes payable	5,785,333	1,269,722
Principal payments under long-term debt	<u>(4,955,268)</u>	<u>(1,205,268)</u>
Net cash provided by financing activities	<u>830,065</u>	<u>64,454</u>
Net decrease in cash	(727,697)	(28,009)
Cash at beginning of quarter	<u>1,184,122</u>	<u>697,775</u>
Cash at end of quarter	<u>\$ 456,425</u>	<u>\$ 669,766</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the quarter for:		
Interest	<u>\$ 628,568</u>	<u>\$ 1,119,425</u>
Income taxes	<u>\$ 1,124,636</u>	<u>\$ 1,111,238</u>

BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1992

(1) Interim Financial Statements

In the opinion of management, the accompanying consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to a fair presentation.

(2) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Baldwin Piano & Organ Company (Company) and all its subsidiaries. All material intercompany balances and transactions have been eliminated.

(3) Receivables

Receivables consist of the following:

	March 31, 1992	December 31, 1991
Trade	\$ 7,828,058	\$ 6,618,821
Installment - owned	5,689,045	5,995,885
Holdback on accounts sold	5,293,874	5,183,279
Other	<u>341,888</u>	<u>392,964</u>
	19,152,865	18,190,949
Less allowance for doubtful accounts	<u>6,268,419</u>	<u>6,231,344</u>
Net receivables	12,884,446	11,959,605
Less non-current portion of installment receivables	<u>6,590,000</u>	<u>6,707,000</u>
Net current receivables	<u>\$ 6,294,446</u>	<u>\$ 5,252,605</u>

(4) Inventories

Inventories consist of the following:

	March 31, 1992	December 31, 1991
FIFO cost:		
Raw material	\$ 8,060,953	\$ 8,318,037
Work-in-process	5,457,008	5,465,205
Finished goods	<u>41,734,658</u>	<u>39,349,832</u>
	55,252,619	53,133,074
Excess of FIFO cost over LIFO inventory value	<u>(6,105,780)</u>	<u>(5,580,780)</u>
Net inventories	<u>\$49,146,839</u>	<u>\$47,552,294</u>

BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(8) Disclosure Regarding Finance Subsidiary

In October 1990, the Company's wholly-owned finance subsidiary (Finance) entered into agreements with an independent entity to sell substantially all of its existing installment receivable portfolio and future installment contracts up to a maximum of \$90,000,000. Certain installment receivables were not eligible for sale and were therefore retained by Finance. Finance continues to service all installment receivables sold. Since October 1990, Finance has continued to sell all new installment receivable contracts.

At the time of each installment receivable sale, Finance receives cash equal to the unpaid principal balance of the contracts, less a holdback of 10% of the principal balance of the contracts sold.

The buyer of the installment receivables is entitled to earn interest on the outstanding principal balance of the contracts based upon a floating interest rate provision. Currently, the receivable portfolio sold is yielding interest income in excess of the amounts being retained by the buyer. Over the life of the contracts, the difference between the actual yield on the installment contracts sold, using the rule of seventy-eighths method, and the amount retained by the buyer, is remitted to Finance and reported as "Income on the sale of installment receivables" in the Consolidated Statement of Earnings.

Under the sale agreements, Finance is required to repurchase accounts that become more than 120 days past due or accounts that are deemed uncollectable. The repurchase price is equal to the remaining unpaid principal balance of the contract on the date repurchased, less the related 10% holdback.

The balance of installment receivables sold that remain uncollected, on which Finance remains contingently liable, is as follows:

	March 31, <u>1992</u>	December 31, <u>1991</u>
Principal balance of installment		
receivables sold	\$53,096,250	\$52,014,053
Unearned interest charges	<u>13,337,343</u>	<u>13,130,743</u>
Total sold receivables outstanding	<u>\$66,433,593</u>	<u>\$65,144,796</u>

Installment receivables are collateralized by keyboard instruments. Additionally such receivables, other than those originated by the Company's retail stores, are accepted with recourse to the Company's dealers if the related instrument is repossessed. Management believes an adequate allowance has been provided for any uncollectable receivables.

BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Condensed balance sheets of Finance are as follows:

	March 31, 1992	December 31, 1991
Assets		
Installment receivables - owned	\$ 5,689,045	\$ 5,995,885
Holdback on accounts sold	5,293,874	5,183,279
Allowance for doubtful accounts	<u>(3,051,559)</u>	<u>(3,074,059)</u>
Installment receivables, net	7,929,360	8,105,105
Due from parent	2,062,693	1,749,620
Deferred income taxes	869,856	869,856
Other assets	<u>1,266,627</u>	<u>866,703</u>
Total assets	<u>\$12,128,516</u>	<u>\$11,591,284</u>

Liabilities and Stockholder's Equity

Other liabilities	\$ 1,905,522	\$ 1,918,554
Stockholder's equity	<u>10,221,014</u>	<u>9,672,730</u>
Total liabilities and stockholder's equity	<u>\$12,128,516</u>	<u>\$11,591,284</u>

Condensed statements of earnings of Finance for the three months ended March 31, 1992 and 1991 are as follows:

	1992	1991
Income on the sale of		
installment receivables	\$ 1,290,095	\$ 888,628
Interest income on installment receivables	80,421	53,477
Other operating income	<u>148,378</u>	<u>215,652</u>
Total revenue	1,518,894	1,157,764
Expenses:		
Interest	6,250	25,371
Provision for doubtful accounts	100,000	90,000
General and administrative	<u>495,360</u>	<u>378,591</u>
Earnings before income taxes	917,284	663,802
Income taxes	<u>167,000</u>	<u>269,000</u>
Net earnings	<u>\$ 550,284</u>	<u>\$ 394,802</u>

BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(6) Notes Payable and Long-term Debt

Notes payable and long-term debt consist of the following:

	March 31, 1992	December 31, 1991
Current notes payable:		
Revolving line of credit	\$21,205,872	\$17,309,132
Other	<u>2,808,397</u>	<u>919,804</u>
Total current notes payable	24,014,269	18,228,936
Long-term notes payable (including current portion):		
Participation in revolving line of credit	--	4,500,000
Term loan	6,540,852	6,822,120
Industrial Development Bonds	<u>1,992,000</u>	<u>2,166,000</u>
Total long-term debt	<u>8,532,852</u>	<u>13,488,120</u>
Notes payable and long-term debt.	<u>\$32,547,121</u>	<u>\$31,717,056</u>

(7) Earnings Per Share

Net earnings per share is computed by dividing net earnings by the average number of shares of common stock outstanding during the periods (3,399,144 shares outstanding for the three months ended March 31, 1992 and 1991).

(8) Stockholders' Equity

At March 31, 1992 and December 31, 1991, the Company had 14,000,000 shares of \$.01 par value common stock authorized and 4,147,944 shares issued. As of those dates, the Company held 748,800 shares in treasury.

The Company's debt agreements restrict, among other things, the payment of dividends, the repurchase of the Company's common stock and the Company's ability to incur new indebtedness and to enter new businesses. At March 31, 1992, \$15,167,000 is available for the payment of dividends or the repurchase of the Company's common stock.

BALDWIN PIANO & ORGAN COMPANY AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(9) Commitments and Contingent Liabilities

The Company is involved in litigation arising in its normal course of business. The Company does not believe that any existing claims or suits will have a material adverse effect on the business or financial condition of the Company.

Certain Wurlitzer dealers finance their inventory with floor plan loans from an independent bank. Under the floor plan arrangement, dealers can borrow money from the bank based upon the value of the inventory purchased from Wurlitzer. The dealers use proceeds from the loans to reduce their outstanding payables to Wurlitzer. The dealers are required to pay the bank monthly interest payments and pay principal balance after inventory is sold or held longer than nine months. The bank may request Wurlitzer to repurchase notes due from delinquent dealers. If Wurlitzer does not repurchase such notes, the bank can terminate the floor plan agreement with the dealers and require Wurlitzer to repurchase up to \$1,700,000 of the outstanding dealer notes. The Company believes the financial statements contain adequate provisions for any loss that may be incurred as a result of the repurchase. At March 31, 1992, the dealers' outstanding obligations to the bank approximated \$8,100,000.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

RESULTS OF OPERATIONS

Three Months ended March 31, 1992

Compared to Three Months ended March 31, 1991

Net sales for the three months ended March 31, 1992, increased \$1,827,000, or 7%, over the comparable period in 1991. Sales of pianos increased \$1,572,000, organ sales decreased \$394,000, electronic contracting sales increased \$355,000, music product contract manufacturing sales increased \$354,000 and clock sales decreased \$60,000.

The increase in piano sales is primarily attributable to a 9% increase in the average unit selling price. The decrease in organ sales is primarily attributable to a 16% decline in the number of units sold.

Gross profit increased \$275,000 in the first quarter of 1992 over the comparable period in 1991, primarily as a result of higher sales.

Income on the sale of installment receivables increased \$401,000 in the first quarter of 1992 over the comparable period in 1991. This increase is primarily the result of a decrease in the amount retained by the buyer under the floating interest rate provision of the sale agreement. See "Liquidity and Capital Resources".

Interest expense for the first quarter of 1992 decreased \$408,000 from the comparable period in 1991, primarily due to lower interest rates and reduced average borrowing.

Net earnings for the first quarter of 1992 increased \$388,000 over the comparable period in 1991.

SEASONALITY

The Company's business historically has been seasonal in nature with the fourth quarter generally showing the strongest results. However, the last three years did not fall within the Company's normal pattern of seasonality.

INFLATION, OPERATIONS AND INTEREST RATES

The impact of inflation on manufacturing and operating costs can affect the Company's results. However, the Company has generally been able to offset the effects of inflation by price increases and operating efficiencies.

A slowing in the growth of the economy or a general economic downturn can negatively affect the Company's sales. The Company believes the current recession has adversely affected sales in 1990, 1991 and 1992.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)**

The Company's sales of non-portable electronic keyboards have declined steadily during the last ten years, reflecting a general decline in this market.

The Company and its subsidiaries' operating results are sensitive to changes in interest rates primarily because of fixed interest rates on installment receivables and floating interest rates on substantially all indebtedness. Additionally, the buyer of the installment receivables is entitled to earn interest on the outstanding principal balance of the contracts based upon a floating interest rate provision.

The Company can partially offset the effect of interest rate changes by adjusting display fees on its consigned inventory and interest rates on its new installment receivable contracts. In March 1988, the Company entered into an interest rate modification agreement which ensures, through March 1993, that with respect to \$12,000,000 of indebtedness, the Company will receive interest income to the extent the LIBOR interest rate exceeds 11%. In October 1990, the Company entered into another interest rate modification agreement which ensures, through October 1994, that with respect to \$25,000,000 of indebtedness, the Company will receive interest income to the extent the one-month commercial paper rate reported on the Federal Reserve statistical release H15 (519), converted to a money market yield, exceeds 12%.

LIQUIDITY AND CAPITAL RESOURCES

The Company and its wholly-owned finance subsidiary (Finance) require significant working capital to support their operations. Working capital requirements fluctuate during the year and normally reach their highest levels in the early fall.

The Company ships keyboard instruments and clocks to its Baldwin dealer network on a consignment basis. Management believes the consignment program creates a competitive advantage for its dealers. Dealers are able to display a larger and more comprehensive product line than they may otherwise be able to without the Company's financial support. Also the consignment program is advantageous to the Company for income tax purposes, and management believes the consignment method minimizes losses from dealers.

Because the Company finances inventory on consignment to Baldwin dealers, the Company's borrowing is higher than comparable companies not operating on the consignment basis. Management believes the advantages of the consignment program are greater than the risks associated with the higher leverage.

The GECC revolving loan permits borrowing based on certain percentages of the value of inventories and trade receivables. The revolving loan permits borrowing based on the wholesale selling price of this consigned inventory rather than its cost. At March 31, 1992, the Company was permitted to borrow \$48,600,000 based on this inventory that had a recorded FIFO cost of approximately \$42,500,000.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)**

The Company had \$21,206,000 short-term debt outstanding at March 31, 1992, under its GECC revolving loan, with \$34,421,000 available for additional borrowing. At March 31, 1992, the Company's long-term debt, including current portion, was \$8,533,000.

The Company's debt agreements restrict, among other things, the payment of dividends, the repurchase of the Company's common stock and the Company's ability to incur new indebtedness and to enter new businesses. At March 31, 1992, \$15,167,000 was available for payment of dividends or to repurchase the Company's common stock. In addition, the Company must maintain a ratio of total liabilities to stockholders' equity of not more than 7 to 1, a ratio of current assets to current liabilities of not less than 1.15 to 1 (excluding Finance), and an excess of current assets over current liabilities of at least \$4,000,000 (excluding Finance) and \$12,000,000 in stockholders' equity. The Company must also have net earnings (after certain adjustments provided in the credit agreements) for each fiscal quarter of at least \$1,000,000 or an aggregate of \$4,000,000 for the preceding eight fiscal quarters. If such covenants are not met, the debt could become currently payable.

In October 1990, Finance entered into agreements with an independent entity to sell substantially all of its existing installment receivable portfolio and future installment contracts, up to a maximum of \$90,000,000. Accordingly, during October 1990, Finance received approximately \$41,000,000 from the initial sale of receivables. The proceeds from the sale were primarily used to redeem all of Finance's outstanding commercial paper. Finance then terminated all arrangements relating to its commercial paper program. Certain installment receivables were not eligible for sale and were therefore retained by Finance. Finance continues to service all installment receivables sold. Since October 1990, Finance has continued to sell all new installment receivable contracts.

At the time of each installment receivable sale, Finance receives cash equal to the unpaid principal balance of the contracts, less a holdback of 10% of the principal balance of the contracts sold.

The buyer of the installment receivables is entitled to earn interest on the outstanding principal balance of the contracts based upon a floating interest rate provision. Over the life of the contracts, the difference between the actual yield on the installment contracts sold and the amount retained by the buyer is remitted to Finance as a service fee.

Under the sale agreements, Finance is required to repurchase accounts that become more than 120 days past due or accounts that are deemed uncollectable. The repurchase price is equal to the remaining unpaid principal balance of the contract on the date repurchased, less the related 10% holdback. Finance remains contingently liable on approximately \$53,100,000 of installment receivables. Management believes an adequate allowance has been provided for any uncollectable receivables.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)**

Certain Wurlitzer dealers finance their inventory with floor plan loans from an independent bank. Under the floor plan arrangement, dealers can borrow money from the bank based upon the value of the inventory purchased from Wurlitzer. The dealers use proceeds from the loans to reduce their outstanding payables to Wurlitzer. The dealers are required to pay the bank monthly interest payments and pay principal balance after inventory is sold or held longer than nine months. The bank may request Wurlitzer to repurchase notes due from delinquent dealers. If Wurlitzer does not repurchase such notes, the bank can terminate the floor plan agreement with the dealers and require Wurlitzer to repurchase up to \$1,700,000 of the outstanding dealer notes. The Company believes the financial statements contain adequate provisions for any loss that may be incurred as a result of the repurchase. At March 31, 1992, the dealers' outstanding obligations to the bank approximated \$8,100,000.

Baldwin's Stock Repurchase Plan permits the Company to purchase an amount of the Company's common stock not to exceed the lesser of 1,033,000 shares or \$12,416,000 in dollar value. From the date the Plan was adopted in November 1987, through May 1, 1992, the Company has repurchased 701,300 shares of its common stock at an aggregate purchase price of \$5,655,000.

At March 31, 1992, the Company had no significant outstanding capital commitments.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in litigation arising in its normal course of business. The Company does not believe that any existing claim or suit will have a material adverse effect on the business or financial condition of the Company.

Item 2. Changes in Securities

No changes have been made to the instruments defining the right of the holders of the Company's common stock or to the rights of such stockholders.

Item 3. Defaults upon Senior Securities

The Company is not in default nor has it defaulted on any indebtedness. The Company is not obligated to pay any dividends or other payment to any of its stockholders.

Item 4. Submission of Matters to a Vote of Security Holders

No matters have been submitted to a vote of security holders during the first quarter of 1992.

PART II. OTHER INFORMATION (Continued)

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form S-K

(a) Exhibits

- 3.1 Certificate of Incorporation of the Company, as amended.*
 - 3.2 By-Laws of the Company.*
 - 11.1 Statement regarding computations of earnings per share.
 - 20.1 1992 First Quarter Report to Stockholders of the Company.
-

*Incorporated by reference from the Company's Form S-1 Registration Statement No. 33-7251 as declared effective by the Commission on October 8, 1986.

Index to Exhibits appears on sequentially numbered page 17.

(b) Reports on Form S-K

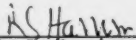
The Company filed no reports on Form S-K during the first quarter of 1992.

SIGNATURES

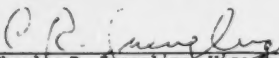
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALDWIN PIANO & ORGAN COMPANY

DATE: May 13, 1992

BY: 
R. S. Harrison, Chairman
and Chief Executive Officer

DATE: May 13, 1992

BY: 
Charles R. Juengling, Vice President
(Chief Financial Officer and
Chief Accounting Officer)

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Sequential Page Number</u>
3.1	Certificate of Incorporation of the Company, as amended.*	--
3.2	By-Laws of the Company.*	--
11.1	Statement regarding computations of earnings per share.	18
20.1	1992 First Quarter Report to Stockholders of the Company	19

*Incorporated by reference from the Company's Form S-1 Registration Statement No. 33-7251 as declared effective by the Commission on October 8, 1986.

STATEMENT REGARDING COMPUTATIONS OF EARNINGS PER SHARE

Three months ended March 31, 1992:

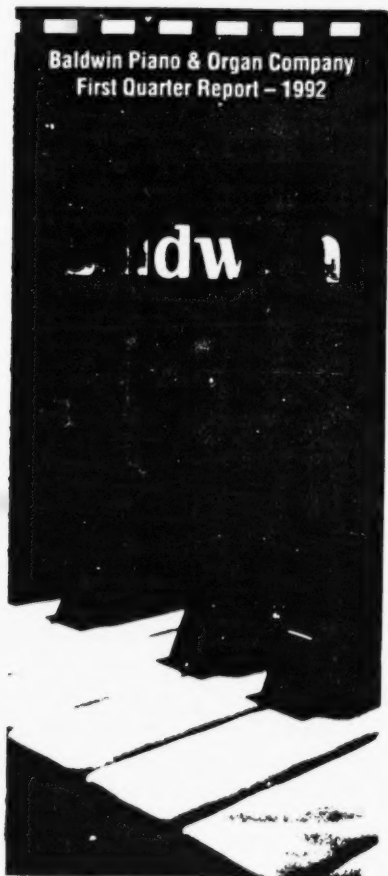
Net earnings	<u>\$1,369,931</u>
Average number of common shares outstanding	<u>3,399,144</u>
Net earnings per share	<u>\$.40</u>

Three months ended March 31, 1991:

Net earnings	<u>\$ 981,435</u>
Average number of common shares outstanding	<u>3,399,144</u>
Net earnings per share	<u>\$.29</u>

Baldwin Piano & Organ Company
First Quarter Report - 1992

Baldwin



To Our Stockholders:

May 1, 1992

Net earnings for the three months ended March 31, 1992, increased 40% to \$1,370,000 from \$981,000 a year ago. Earnings per share for the first quarter increased 38% to \$.40 from \$.29 per share a year ago. Baldwin sales for the three months ended March 31, 1992, increased 7% to \$26,441,000 from \$24,614,000 a year ago.

The increase in Baldwin's net earnings in the first quarter of 1992 compared to the same period of 1991 was primarily the result of increased sales and lower interest costs.

For the twelve months ended March 31, 1992, net earnings increased 27% to \$4,804,000 from \$3,772,000 for the comparable period in the prior year. Earnings per share increased 28% to \$1.41 from \$1.10 for the comparable period last year. Net sales decreased 5% to \$105,058,000 from \$111,107,000 twelve months earlier.

The increase in net earnings for the twelve months ended March 31, 1992, compared to the same period of 1991, was primarily the result of lower interest costs offsetting the impact of lower sales.

Dick Harrison

R.S. Harrison, Chairman

Harold Smith

Harold S. Smith, President

Consolidated Summary of Earnings (Unaudited)

(in thousands, except earnings per share)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	1992	1991	1992	1991
Net sales	\$ 28,441	\$ 24,614	\$ 106,058	\$ 111,107
Cost of goods sold	19,155	17,603	75,591	80,057
Gross profit	7,286	7,011	29,467	31,050
Income on the sale of installment receivables	1,290	889	4,425	1,587
Interest income on installment receivables	99	53	377	3,784
Other operating income	1,967	1,004	3,831	3,721
Selling, administrative and general expenses	(8,729)	(8,252)	(26,578)	(26,279)
Interest expense	(846)	(1,048)	(3,525)	(7,553)
Earnings before income taxes	2,355	1,657	7,997	6,310
Income taxes	985	876	3,193	2,538
Net earnings	\$ 1,370	\$ 981	\$ 4,804	\$ 3,772
Net earnings per share	\$.46	\$.29	\$ 1.41	\$ 1.10
Average number of shares outstanding (000)	3,399	3,399	3,399	3,431

Consolidated Summary Balance Sheets (Unaudited)

(in thousands)

	March 31,	
	1992	1991
Assets		
Trade receivables, net	\$ 4,955	\$ 5,651
Installment receivables, net	1,339	518
Inventories	49,147	50,240
Other current assets	8,053	5,442
Total current assets	61,494	61,851
Installment receivables, less current portion	8,590	5,600
Property, plant and equipment, net	14,578	14,986
Other assets	8,878	8,466
Total assets	\$ 88,740	\$ 90,903
Liabilities and Stockholders' Equity		
Notes payable and current portion of long-term debt	\$ 25,835	\$ 31,900
Other current liabilities	7,489	6,876
Total current liabilities	33,324	38,776
Long-term debt, less current portion	8,712	8,533
Other liabilities	8,138	7,801
Stockholders' equity	40,597	35,793
Total liabilities and stockholders' equity	\$ 88,740	\$ 90,903

EXHIBIT 20.1

Businesses

Manufacturing

Pianos and electronic keyboards

Actions, pinblocks, bridges, cables, keys, etc. for piano and organ industry

Printed circuit boards and electro-mechanical assemblies for manufacturers outside music industry

Clocks: grandfather, wall, mantel and brass

Retailing

Company owned outlets in Atlanta, Chicago, Cincinnati, Indianapolis, Louisville and New York

Independent keyboard dealers (1,100)

Financing

Consumer installment financing and dealer consignment

Home Office

422 Wards Corner Road, Loveland, OH 45140, (513)576-4500

Manufacturing Locations

Conway, Fayetteville and Trumann, Arkansas

Greenwood, Mississippi

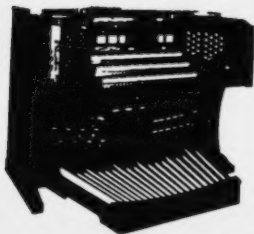
Juarez, Mexico

Registrar and Transfer Agent

The Provident Bank, One East Fourth Street

Cincinnati, OH 45202

Baldwin Piano & Organ Company common stock is traded on the NASDAQ National Market System, Symbol BPAQ



Baldwin Classical Organ

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended May 31, 1992 Commission File Number 0-7405

MEDISCIENCE TECHNOLOGY CORP.

(Exact Name of Registrant as Specified in its Certificate of Incorporation)

New Jersey

(State or other jurisdiction on incorporation or organization)

22-1937826

(I.R.S. Employer Identification Number)

1235 Folkestone Way, P.O. Box 598, Woodcrest, Cherry Hill, NJ 08034
(Address of principal executive offices)

(Registrant's telephone number, including area code) 609-482-8683

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Registrant has not been involved in bankruptcy proceedings during the preceding five years.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 31, 1992.

<u>Title of Class</u>	<u>Number of Shares Outstanding</u>
Common Stock, par value \$.01, per share	19,642,038
Preferred Stock, par value \$.01 per share	2,074

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MEDISCIENCE TECHNOLOGY CORP.
MAY 31, 1992

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MEDISCIENCE TECHNOLOGY CORP.

BALANCE SHEETS

ASSETS

<u>CURRENT ASSETS</u>	May 31, 1992 (Unaudited)	February 29, 1992
Cash		
Accounts Receivable	\$ 1,560,765	\$ 2,201
Stock Subscription Receivable	3,144	1,589
Prepaid Expenses	130,000	-
Total Current Assets	<u>36,904</u>	<u>-</u>
	<u>1,730,813</u>	<u>3,790</u>
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Net of Accumulated Depreciation \$17,289 -		
May 31, 1992; \$15,153 - February 29, 1992		
	<u>28,427</u>	<u>12,357</u>
<u>OTHER ASSETS</u>		
Deferred Private Placement Costs	-	96,548
Goodwill - Net of Accumulated Amortization		
\$80,500 - May 31, 1992; \$74,750 -		
February 29, 1992		
Total Other Assets	<u>379,500</u>	<u>385,250</u>
	<u>379,500</u>	<u>481,798</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,138,740</u>	<u>\$ 497,945</u>
	<u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u>	
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 2,196	\$ 22,706
Other Accrued Liabilities	547,573	642,594
Total Current Liabilities	<u>549,769</u>	<u>665,300</u>
<u>STOCKHOLDERS' EQUITY (DEFICIT)</u>		
Preferred Stock - \$.01 Par Value;		
Authorized 50,000 Shrs; Outstanding		
2,074 Shrs; (Preference on Liquidation		
\$20,740	21	21
Common Stock \$.01 Par Value, Authorized		
39,950,000 Shares; Outstanding 19,642,038		
Shares	196,420	174,229
Additional Paid-in Capital	11,276,089	9,410,502
Accumulated Deficit	(9,883,559)	(9,732,107)
Total Stockholders' Equity (Deficit)	<u>1,588,971</u>	<u>(167,355)</u>
<u>TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)</u>	<u>\$ 2,138,740</u>	<u>\$ 497,945</u>

MEDISCIENCE TECHNOLOGY CORP.
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MAY 31, 1992 AND 1991
(UNAUDITED)

	<u>THREE MONTHS</u>	
	<u>1992</u>	<u>1991</u>
Net Sales	\$ 11,556	\$ 10,828
Cost of Sales	<u>6,229</u>	<u>6,022</u>
Gross Profit	5,327	4,806
General and Administrative Expense	95,645	56,953
Product Development Expense	32,592	14,933
Advertising, Travel and Marketing	<u>10,088</u>	<u>7,324</u>
Total Expenses	<u>138,325</u>	<u>79,210</u>
Interest Income	<u>1,546</u>	<u>964</u>
Net Loss	<u>\$ (131,452)</u>	<u>\$ (73,440)</u>
Net Loss Per Common Share	<u>\$(.007)</u>	<u>\$(.004)</u>
Weighted Average Number of Shares of Common Stock Outstanding	<u>18,532,330</u>	<u>16,881,721</u>

MEDISCIENCE TECHNOLOGY CORP.
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MAY 31, 1992 AND 1991

	<u>1992</u>	<u>1991</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net Loss	\$ (131,452)	\$(73,440)
Adjustments for Items Not Requiring Cash Outlay		
Depreciation	2,136	1,066
Amortization	<u>5,750</u>	<u>5,750</u>
Subtotal	(123,566)	(66,624)
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(1,555)	(7,528)
Increase in Stock Subscriptions Receivable	(130,000)	-
Increase in Prepaid Expenses	(36,904)	-
Increase (Decrease) in Accounts Payable	(20,510)	4,669
Increase in Other Accrued Liabilities	<u>(95,021)</u>	<u>32,500</u>
Net Cash Flows From Financing Activities	<u>(407,556)</u>	<u>(36,983)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds From Issuance of Common Stock, Net of Costs	<u>1,984,326</u>	<u>-</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisition of Equipment	<u>(18,206)</u>	<u>-</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	1,558,564	(36,983)
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning Balance	<u>2,201</u>	<u>98,383</u>
Ending Balance	<u>\$1,560,765</u>	<u>\$ 61,400</u>

MEDISCIENCE TECHNOLOGY CORP.
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MAY 31, 1992
(UNAUDITED)

	<u>PREFERRED STOCK</u>	<u>COMMON STOCK</u>	<u>ACCUMULATED PAID IN CAPITAL</u>	<u>ACCUMULATED DEFICIT</u>
Balance February 29, 1992	\$ 21	\$174,229	\$ 9,410,502	\$(9,752,107)
Capital Contributions	-	-	49,997	-
Issuance of Common Stock	-	22,191	1,815,590	-
Net Loss for the Three Months Ended May 31, 1992	-	-	-	(131,452)
Balance May 31, 1992	<u>\$ 21</u>	<u>\$196,420</u>	<u>\$11,276,089</u>	<u>\$(9,883,559)</u>

EXHIBIT TO STATEMENTS OF OPERATIONS
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING

	Common Stock \$.01 Par Value Issued and <u>Outstanding</u>	Common Stock Equivalents	Number of Shares <u>Outstanding</u>	Weighted Average Number of Shares <u>Outstanding</u>
March 1992	17,422,916	-	17,422,916	
April 1992	18,532,038	-	18,532,038	
May 1992	19,642,038	-	19,642,038	18,532,330

MEDISCIENCE TECHNOLOGY CORP.
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1992
(UNAUDITED)

Note 1 - Results of Operations

The financial statements, in the opinion of management, include all adjustments and accruals necessary for a fair presentation.

The results of operations for each interim period are not necessarily indicative of results to be expected for the year due to the unpredictability of market factors, product development, competition and sales in general.

Note 2 - Other Accrued Liabilities

Included in Other Accrued Liabilities are two long outstanding judgments totaling \$353,000. In the opinion of management, the Company has accrued adequate amounts regarding these matters.

The Company has committed to fund approximately \$246,000 to the establishment of a Mediphotonics Laboratory at the City College of the City University of New York over a twelve month period beginning June 1, 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

The Company's revenues increased 6% or approximately \$700 for the quarter ended May 31, 1992 when compared to the quarter ended May 31, 1991. Current revenues derived from the sale of the Forsterite crystal remained about the same when compared to the prior year quarter ended May 31, 1991. The Company continues to receive interest in specific applications for the crystal by industrial and educational institutions. The Company also continues to receive an increasing flow of royalties from a patent sold several years ago when the Company was recapitalizing. These royalties increased 35%, or approximately \$970, for the 1992 fiscal quarter as compared to the 1991 fiscal quarter. As a percentage to sales, gross profit percentage which includes the royalties remained relatively the same at 46% and 44% for fiscal quarters 1992 and 1991, respectively.

General and administrative expenses increased approximately 68% or \$38,700 during the quarter ended May 31, 1992 when compared to the quarter ended May 1991. The principal reason for the increase was due to increases in salaries and wages and consulting costs as a result of the Company entering into an employment agreement with its Chief Executive Officer - Peter Katevatis and a consulting agreement with Dr. Robert Alfano, who is presently the Director of the Institute of Ultrafast Spectroscopy and Lasers at City College of New York. An increase in these costs approximated \$31,000 for the quarter with the balance of general and administrative expense increases in professional fees.

The Company increased its product development expense approximately \$18,000 during the current fiscal quarter when compared to the 1991 fiscal quarter. The Company is developing light-based medical diagnostic technology products in conjunction with City College of CUNY. During the 1992 fiscal quarter the Company accrued approximately \$20,000 to CUNY for reimbursement of development costs. The Company also incurred approximately \$12,500 in legal fees associated with patent applications and filing fees.

The Company also increased its advertising, travel and marketing expense 37% for the 1992 fiscal quarter when compared to the 1991 fiscal quarter. The principal reason for the increase was the Company's continued program of public relations in conjunction with its efforts to attain promotional, financial and marketing objectives.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter the Company completed a private placement approximating \$2,000,000 in May 1992. As a result the Company's working capital increased approximately \$1,842,000 during the current quarter to a positive position of approximately \$1,181,000, which is net of some obligations accrued prior to 1981 which may not require current debt servicing. The remaining liabilities primarily consist of accruals for professional fees, wages, research and development costs and public relations, some of which may be satisfied by the issuance of common stock of the Company.

In May, 1992, the Company has entered into a six-month standstill agreement with Bristol-Myers Squibb Co. (BMS) in consideration of the payment to the Company of \$40,000. This will allow BMS to complete its business review of the Company in pursuit of its interest in achieving a mutually satisfactory business arrangement. The specific purpose is to commercially employ the Company's proprietary technology of light spectroscopy to diagnose disease less invasively, on a worldwide basis.

The Company believes that the net proceeds of its private placement completed in May, 1992 is sufficient to meet its cash requirements for the next twelve months.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

During the quarter the Company signed an agreement to fund approximately \$245,000 to the establishment of a Mediphotonics Laboratory at the City College of the City University of New York. The Laboratory would be the only one of its kind in the world. The Company also signed an agreement with Sloan Kettering for the conduct of clinical applications and research utilizing a prototype device developed by the Company for the detection of cancerous tissue.

Item 6. Exhibits and Reports on Form 8-K

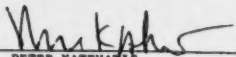
On May 8, 1992, the Company entered into a six-month standstill agreement with Bristol-Myers Squibb Co. (BMS) for the consideration of forty thousand dollars (\$40,000.00). This will allow BMS to complete its business review of the registrant in support of its interest in achieving a mutually satisfactory business arrangement. The specific purpose is to commercially employ registrant's proprietary technology of light spectroscopy to diagnose disease less invasively, on a worldwide basis. (BMS letter of agreement executed by both parties and filed with the SEC on 5/11/92 is attached and made a part hereof by reference).

SIGNATURES

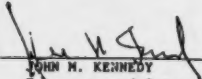
PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE ACT OF 1934,
THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY
THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

MEDISCIENCE TECHNOLOGY CORP.
(REGISTRANT)

DATE: July 9, 1992

By: 

PETER KATEVATIS
President/CEO

By: 

JOHN M. KENNEDY
Treasurer and Secretary
Chief Accounting Officer

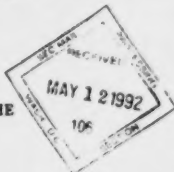
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Q-35637

Form 10-Q

N
92-2262 9SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

92 14 6623

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934For Quarter Ended March 31, 1992

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 19349-9C
PROCESSED BYFor the transition period from _____ to MAY 14 1992Commission File Number 3-39895

Microfilmed by

MIDLAND ENTERPRISES INC.

Q-Data Corp. - St. Petersburg, FL

(Exact name of registrant as specified in its charter)

C-30

DELAWARE04-2284434(State or other jurisdiction of
incorporation or organization)(I.R.S. Employer
Identification No.)1400-590 BUILDING, CINCINNATI, OHIO45202

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

513-721-4000NONEFormer name, former address and former fiscal year,
if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No _____

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The number of shares of common stock of Midland Enterprises Inc. outstanding as of May 8, 1992 was 15 1/2, all held by Eastern Enterprises.

Registrant meets the conditions set forth in general instructions H(1) (a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.

PART 1. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

Company or group of companies for which report is filed:

Midland Enterprises Inc. And Subsidiaries ("Midland")Consolidated Statements of Income (Unaudited)

	(000 Omitted)	
	For the Three Months Ended March 31, 1992	For the Three Months Ended March 31, 1991
Operating Revenues	\$ 61,569	\$ 62,769
Operating Costs and Expenses:		
Operating expenses	\$ 40,874	\$ 43,259
Depreciation and amortization	5,987	5,351
Selling, general and administrative expenses	2,958	2,979
Overhead allocation from Parent	702	870
Taxes, other than income	3,380	3,009
	\$ 53,901	\$ 55,468
Earnings from operations	\$ 7,668	\$ 7,301
Other Income:		
Interest income from Parent	\$ 681	\$ 894
Interest income other	9	16
Other, net	58	(8)
	\$ 748	\$ 902
Interest Expense:		
Long-term debt	\$ 3,847	\$ 3,692
Other, including amortization of debt expense	28	35
Interest capitalized during construction	(195)	(356)
	\$ 3,679	\$ 3,371
Earnings before income taxes	\$ 4,737	\$ 4,832
Provision for income taxes	1,451	1,491
Earnings before cumulative effect of accounting change	\$ 3,286	\$ 3,341
Cumulative effect of accounting change	-	5,906
Net Earnings (Loss)	\$ 3,286	\$ (2,565)

The accompanying notes are an integral

Midland Enterprises Inc. And SubsidiariesConsolidated Balance Sheets (Unaudited)

	(000 Omitted)		
	March 31, 1992	Dec. 31, 1991	March 31, 1991
Assets			
Current Assets:			
Cash and cash equivalents	\$ 95	\$ 95	\$ 92
Receivables -			
Trade, net	23,764	26,605	24,970
Parent	42,213	43,436	41,905
Other	1,207	687	2,293
Materials, supplies & fuel	17,813	16,252	20,555
Prepaid expenses	917	1,117	3,002
Total current assets	<u>\$ 86,009</u>	<u>\$ 88,192</u>	<u>\$ 92,817</u>
Property and Equipment, at cost	\$ 609,372	\$ 602,809	\$ 577,321
Less-Accumulated depreciation	<u>273,396</u>	<u>268,661</u>	<u>258,048</u>
Net property and equipment	<u>\$ 335,976</u>	<u>\$ 334,148</u>	<u>\$ 319,273</u>
Other Assets:			
Deferred pension charges	\$ 8,725	\$ 8,698	\$ 8,292
Unamortized debt expense, deferred maintenance and other	<u>4,603</u>	<u>4,112</u>	<u>1,880</u>
Total other assets	<u>\$ 13,328</u>	<u>\$ 12,810</u>	<u>\$ 10,172</u>
Total assets	<u>\$ 435,313</u>	<u>\$ 435,150</u>	<u>\$ 422,262</u>

The accompanying notes are an integral part of these financial statements.

Midland Enterprises Inc. And SubsidiariesConsolidated Balance Sheets (Unaudited)

	(000 Omitted)		
	March 31,	Dec. 31,	March 31,
	1992	1991	1991
Liabilities and Stockholder's Investment			
Current Liabilities:			
Current portion of long-term debt	\$ 7,652	\$ 9,229	\$ 8,225
Accounts payable -			
Trade	13,193	14,479	13,488
Parent	198	976	63
Income taxes payable	1,235	949	978
Accrued expenses	12,518	9,412	10,810
Other current liabilities	12,257	12,205	14,932
Total current liabilities	\$ 47,053	\$ 47,250	\$ 48,496
Long-Term Debt	\$ 149,838	\$ 151,189	\$ 147,462
Reserves and Deferred Credits:			
Deferred income taxes	\$ 66,518	\$ 65,724	\$ 65,213
Unamortized investment tax credits	6,544	6,731	7,301
Post-retirement health care	9,239	9,184	8,948
Other reserves	1,415	1,501	1,842
Total reserves and deferred credits	\$ 83,716	\$ 83,140	\$ 83,304
Stockholder's Investment:			
Common stock, \$100 par value -			
Authorized - 1,000 shares			
Shares issued & outstanding -			
15 1/2 shares	\$ 1	\$ 1	\$ 1
Capital in excess of par value	52,519	52,519	52,519
Retained earnings	102,186	101,051	90,480
Total stockholder's investment	\$ 154,706	\$ 153,571	\$ 143,000
Total liabilities and stockholder's investment	\$ 435,313	\$ 435,150	\$ 422,262

The accompanying notes are an integral part of these financial statements.

Midland Enterprises Inc. And SubsidiariesConsolidated Statements of Cash Flows (Unaudited)

	(000 Omitted)	
	For the Three Months Ended March 31, 1992	March 31, 1991
<u>Cash Flows from Operating Activities:</u>		
Net earnings (loss)	\$ 3,286	\$ (2,565)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,987	5,351
Deferred and current income taxes	1,080	(3,007)
Net gain on sale of assets	(84)	-
Other changes in assets and liabilities:		
Trade and other receivables	2,321	571
Materials, supplies & fuel	(1,561)	1,321
Accounts payable	(2,064)	245
Accrued expenses and other current liabilities	3,158	3,107
Post-retirement health care	55	8,949
Other	(386)	(666)
Net Cash Provided by Operating Activities	<u>\$ 11,792</u>	<u>\$ 13,306</u>
<u>Cash Flows from Investing Activities:</u>		
Capital expenditures	\$ (8,185)	\$ (15,474)
Change in Parent receivable	1,223	(78)
Proceeds from asset dispositions	<u>266</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>\$ (6,696)</u>	<u>\$ (15,552)</u>
<u>Cash Flows from Financing Activities:</u>		
Issuance of long-term debt	\$ -	\$ 7,000
Repayment of long-term debt	(2,945)	(2,750)
Cash dividends paid to Parent	<u>(2,151)</u>	<u>(2,004)</u>
Net Cash Provided by (Used in) Financing Activities	<u>\$ (5,096)</u>	<u>\$ 2,246</u>
Net Increase in Cash and Cash Equivalents	\$ -	\$ -
Cash and Cash Equivalents at Beginning of Period	<u>95</u>	<u>92</u>
Cash and Cash Equivalents at End of Period	<u>\$ 95</u>	<u>\$ 92</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 1,317	\$ 1,162
Income taxes	\$ 371	\$ 1,456

MIDLAND ENTERPRISES INC. AND SUBSIDIARIES
Notes to Financial Statements
March 31, 1992
(Unaudited)

(1) ACCOUNTING POLICIES

It is Midland's opinion that the financial information contained in this report reflects all adjustments necessary to present a fair statement of the results for the periods reported, but such results are not necessarily indicative of results to be expected for the year, due to the somewhat seasonal nature of Midland's operations. All such adjustments were of a normal, recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, the disclosures herein when read with the annual report for 1991 filed on Form 10-K are adequate to make the information presented not misleading.

POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

Effective January 1, 1991, Midland adopted Statement of Financial Accounting Standards No. 106 ("SFAS 106"), "Employers' Accounting for Post-retirement Benefits Other Than Pensions," by immediately recognizing the cumulative effect of the accounting change which was \$8,949,000 pre-tax or \$5,906,000 net of tax. Prior period financial statement information has been restated to reflect the adoption of SFAS 106.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Midland's consolidated ton-miles transported during the first quarter of 1992 increased 3% from the same period last year, primarily reflecting increased spot coal movements. Consolidated revenues, however, declined 2% as compared to last year, as contractual rate de-escalations due to lower fuel costs more than offset revenue from the increased volume.

Improved operating conditions and the aforementioned lower fuel costs resulted in reduced operating costs for the first quarter of 1992 as compared to the same period last year. Higher depreciation expense related to barge fleet renewal and expansion was partially offsetting. As a result, Midland's first quarter operating earnings were up 5% from the same period in 1991.

In addition to the increase in operating earnings, net earnings increased from the absence of the \$5,906,000 charge, net of tax, recorded in 1991 on the adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions." Excluding the effect of the accounting change, net earnings for the quarter decreased 2% from 1991 due to higher net interest charges associated with Midland's capital expenditure program.

Liquidity and Capital Resources

Debt repayments and dividends to Parent were funded from cash provided by operating activities in the first three months of 1992.

Capital expenditures of \$8,185,000, were primarily funded through operations. In April, 1992 Midland issued the remaining \$25,000,000 of securities under its shelf registration of medium term notes. These proceeds will be used to finance capital expenditures.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The annual meeting of Midland was held April 15, 1992.
- (b) An election of directors was held and the following individuals were elected as directors:

R. R. Clayton
R. L. Doettling
W. J. Flaherty
S. A. Frasher

P.E. Hubbard
J. A. Ives
F. C. Raskin

- (c) Other than procedural matters, no other matter was voted upon at the meeting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (b) Reports on Form 8-K

There were no reports on Form 8-K filed in the first quarter of 1992.

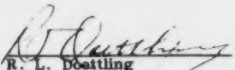
SIGNATURE

It is Midland's opinion that the financial information contained in this report reflects all normal, recurring adjustments necessary for a fair statement of results for the period reported, but such results are not necessarily indicative of results to be expected for the year, due to the seasonal nature of Midland's operations. All accounting policies have been applied in a manner consistent with prior periods. Such financial information is subject to year end adjustments and annual audit by independent public accountants.

Pursuant to the requirements of the Securities Exchange Act of 1934, Midland has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MIDLAND ENTERPRISES INC.

BY:


R. L. Doetting
Senior Vice President
Finance and Administration
Principal Financial Officer
and Duly Authorized Officer

Date: May 8, 1992

0 21208

① 35681

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

92-2262



34

FORM 10-Q

MAY 14 1992

☒Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934
(For the Quarterly Period Ended March 31, 1992)☐Transition Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From ___ to ___
PROCESSED BY
31-N-2
MAY 15 1992

Commission file number: 0-152

Microfilmed by
Q-Data Corp. - St. Petersburg, FLMIDSOUTH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware(State or other jurisdiction of
incorporation or organization)64-0736410(I.R.S. Employer
Identification No.,)111 East Capitol Street, Jackson, Mississippi
(Address of principal executive offices)39201
(Zip Code)

Registrant's telephone number: (601) 353-7508

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ___ No X

On January 15, 1992, the Registrant filed a Form 8-K whereby the December 31, 1991 acquisition by TennRail Corporation, a wholly-owned subsidiary of the Registrant, of the assets of The Corinth and Counce Railroad Company ("CCR") was disclosed. On March 16, 1992, the Registrant filed certain pro forma financial information under cover of a Form 8, as required by the regulations of the Securities and Exchange Commission, but did not provide the audited financial statements of the acquired company (since none exist), as also required by regulation. Also on March 16, 1992, the Registrant filed a no action request with the Securities and Exchange

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Commission's Division of Corporate Finance (the "Division") requesting a waiver of the requirement that audited financial statements of the acquired company be provided. By letter dated April 2, 1992, the Registrant was advised that the Division would not waive the requirements of Rule 3-05 and Article 11 of Regulation S-X which require that audited financial statements and pro forma financial information relating to the acquisition of CCR be provided. While the Division stated it would not waive these requirements, it advised the Registrant in the April 2, 1992 letter that it will not recommend that any action be taken against the Registrant.

The number of outstanding shares (excluding treasury shares) of the Registrant's Common Stock, par value \$.20 per share, was 10,264,598 on May 8, 1992.

FORM 10-Q

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and March 31, 1991 (Unaudited) 5

Consolidated Statements of Cash Flows
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and March 31, 1991 (Unaudited) 6

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MIDSOUTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (Unaudited)	December 31, 1991
--	----------------------------------	----------------------

ASSETS

Current assets:		
Cash & short-term investments	\$ 5,903,791	\$ 2,740,074
Accounts receivable	23,749,902	22,635,474
Inventories	3,315,541	3,326,260
Prepaid insurance	103,917	505,229
Other current assets	<u>569,620</u>	<u>557,148</u>
	<u>33,642,771</u>	<u>29,764,185</u>
Property, plant and equipment:		
Land	9,410,200	9,410,200
Road	160,521,019	158,292,892
Bridges	47,395,734	46,852,271
Other	<u>15,277,573</u>	<u>15,032,208</u>
	232,604,526	229,587,571
Accumulated depreciation	<u>24,246,800</u>	<u>22,371,535</u>
	<u>208,357,726</u>	<u>207,216,036</u>
Intangible assets, net of accumulated amortization of \$4,309,637 and \$3,534,944 respectively		
	24,790,973	24,688,637
Other assets		
	<u>327,248</u>	<u>273,033</u>
Total assets	<u>\$267,118,718</u>	<u>\$261,941,891</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 6,660,476	\$ 7,560,496
Accounts payable	20,511,206	17,915,494
Accrued expenses	<u>8,694,328</u>	<u>5,550,206</u>
	<u>35,866,610</u>	<u>31,026,196</u>
Long-term debt:		
Consolidated term loan due 1992-1997	35,250,000	37,000,000
TennRail term loan due 1992-1999	17,200,000	17,200,000
Senior notes due 1995-2000	40,000,000	40,000,000
Subordinated notes due 1993-1997	37,500,000	37,500,000
Subordinated note due 1999	7,500,000	7,500,000
Revolver debt due 1993 & 1994	1,020,000	2,520,000
Other notes due 1992-1999	<u>1,052,328</u>	<u>1,146,151</u>
	139,522,328	142,866,151
Less: Current portion	<u>6,660,476</u>	<u>7,560,496</u>
	<u>132,861,852</u>	<u>135,305,655</u>
Other liabilities		
	375,285	375,285
Deferred income taxes		
	26,821,813	26,083,319
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.20 par value, 12,000,000 shares authorized, 10,264,835 issued and outstanding	2,052,968	2,052,968
Capital in excess of par value	36,077,669	36,078,169
Retained earnings	33,062,845	31,020,623
Treasury stock, at cost (237 shares)	<u><324></u>	<u><324></u>
	<u>71,193,158</u>	<u>69,151,486</u>
Total liabilities and shareholders' equity	<u>\$267,118,718</u>	<u>\$261,941,891</u>

The accompanying notes to consolidated financial statements
are an integral part of this statement.

MIDSOUTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	1992	Three Months Ended March 31, 1991
Revenues	\$25,498,285	\$22,765,127
Operating Costs and Expenses:		
Transportation Expenses	12,165,145	12,306,712
Selling, General & Administrative	3,619,581	3,034,020
Depreciation and Amortization	<u>2,647,291</u>	<u>1,785,817</u>
	<u>18,432,017</u>	<u>17,126,549</u>
Operating Income	7,066,268	5,638,578
Interest Expense	(3,861,593)	(3,139,214)
Other Income	<u>89,232</u>	<u>41,221</u>
Income before Income Taxes	3,293,907	2,540,585
Provision for Income Taxes:		
Current	(513,191)	(241,355)
Deferred	<u>(738,494)</u>	<u>(724,067)</u>
	<u>(1,251,685)</u>	<u>(965,422)</u>
Net Income	2,042,222	1,575,163
Preferred Dividend Requirements	---	(272,581)
Net Income Available to Common Stock	<u>\$ 2,042,222</u>	<u>\$1,302,582</u>
Earnings Per Common Share	<u>\$.20</u>	<u>\$.17</u>
Weighted Average Number of Shares	<u>10,415,764</u>	<u>7,811,921</u>

The accompanying notes to consolidated financial statements are an integral part of this statement.

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MIDSOUTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months
Ended March 31,

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,042,222	\$ 1,575,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,647,291	1,785,817
Provision for losses on accounts receivable	37,489	35,869
Provision for deferred income taxes	738,494	724,067
(Gain) Loss on asset dispositions	(8,090)	(31,510)
Change in assets and liabilities:		
(Increase) Decrease in accounts receivable	(1,151,916)	(537,185)
(Increase) Decrease in inventory	10,719	117,117
(Increase) Decrease in other current assets	388,839	222,474
(Increase) Decrease in other assets	(54,215)	---
Increase (Decrease) in accounts payable and accrued expenses	5,740,433	(450,316)
Total adjustments	<u>8,349,044</u>	<u>1,866,333</u>
Net cash provided from operating activities	<u>10,391,266</u>	<u>3,441,496</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from asset dispositions	30,719	77,282
Capital expenditures	(3,036,916)	(3,189,142)
Net cash used in investing activities	<u>(3,006,197)</u>	<u>(3,111,860)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving line of credit and long-term borrowings	---	1,130,014
Principal payments on revolving line of credit, long-term debt and notes payable	(3,343,823)	(2,433,264)
Increase in intangibles	(877,029)	(903,018)
Common stock issuance, net of costs incurred	(500)	12,769,003
Redemption of common stock warrants	---	(283,200)
Redemption of preferred stock	---	(6,500,000)
Dividends paid on preferred stock	---	(2,119,178)
Net cash provided by financing activities	<u>(4,221,352)</u>	<u>1,666,357</u>
Increase (Decrease) in cash and cash equivalents	3,163,717	1,989,993
Cash and cash equivalents at beginning of period	<u>2,740,074</u>	<u>91,483</u>
Cash and cash equivalents at end of period	<u>\$ 5,903,791</u>	<u>\$ 2,081,476</u>

The accompanying notes to consolidated financial statements are
an integral part of this statement.

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MIDSOUTH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1992

(Unaudited)

1. The consolidated financial statements included herein have been prepared by MidSouth Corporation ("MidSouth" or the "Company") without audit. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto presented in MidSouth Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, including those statements incorporated therein by reference from MidSouth Corporation's 1991 Annual Report to Stockholders.
2. The financial statements have not been examined by independent public accountants. However, in the opinion of management, all required adjustments have been made for fair presentation.
3. The results of operations for any interim period are not necessarily indicative of the results of operations for the entire year.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's primary sources of liquidity are its cash flow from operations and its existing credit agreements. During the three months ended March 31, 1992 and the three months ended March 31, 1991, the Company generated \$10.4 million and \$3.4 million, respectively, in net cash provided from operating activities.

In order to more appropriately match the repayment terms of its debt instruments with the long-term nature of the Company's capital investment, on April 8, 1991, MidSouth borrowed \$40,000,000 from certain institutional investors in the form of 11.44% senior secured notes due 1995-2000 ("Senior Secured Notes"). The net proceeds from this borrowing were used to reduce the borrowings outstanding under the MidSouth Rail Bank Loan Agreement and the SouthRail Bank Loan Agreement from \$74,471,630 to \$42,000,000 and to repay a \$3.4 million

loan from the Federal Railroad Administration at a discount. The remaining borrowings under the MidSouth Rail Bank Loan Agreement and the SouthRail Bank Loan Agreement were combined into a single loan agreement ("Consolidated Loan Agreement") due in varying annual installments through 1997 with interest at a rate of 7/8% above a base rate as announced by The First National Bank of Boston or, at MidSouth's option, a Eurodollar rate plus 2 1/8%. On March 27, 1991, MidSouth entered into two Interest Rate Swap Agreements with The First National Bank of Boston, regarding the Consolidated Loan Agreement, establishing a fixed interest rate of 9.275% for one year and 9.855% for two years regarding principal of \$10,000,000 and \$20,000,000, respectively. These Agreements began April 2, 1991 and one expired April 2, 1992 while the other will expire April 2, 1993. The Senior Secured Notes and the Consolidated Loan Agreement are secured by substantially all of the assets of MidSouth Rail Corporation ("MidSouth Rail"), MidLouisiana Rail Corporation ("MidLouisiana Rail"), and SouthRail Corporation ("SouthRail").

To complete the April 8, 1991 transaction, MidSouth received the consent of the holders of its Subordinated Notes. In exchange for the consent, the holders of the Subordinated Notes received 90,000 shares of MidSouth Common Stock and the interest rate on the Subordinated Notes increased from 12.20% to 12.95%. Additionally, the Subordinated Notes became secured by a second lien on substantially all of the assets of MidSouth Rail, MidLouisiana Rail and SouthRail.

On December 31, 1991, MidSouth through its wholly-owned subsidiary, TennRail Corporation ("TennRail"), purchased the operating assets of The Corinth and Counce Railroad Company ("CCR"), a subsidiary of Packaging Corporation of America ("PCA"), for \$32 million. The Company incurred approximately \$6 million in acquisition costs. The acquisition was financed through a combination of debt and equity. MidSouth Corporation sold 1,040,000 shares of its Common Stock in a private placement completed on December 31, 1991. Northwestern Mutual Life Insurance Company and Archer Daniels Midland Company ("ADM") purchased 332,000 and 208,000 shares, respectively. The share price for both sales was \$8.50. The remainder of the purchase price was financed by borrowings. TennRail borrowed \$17.2 million through senior secured debt with The First National Bank of Boston and Deposit Guaranty National Bank ("TennRail Loan Agreement") and \$7.5 million of subordinated debt with CCR ("TennRail Subordinated Note").

The borrowings under the TennRail Loan Agreement are due in varying annual installments through 1999 with interest at a rate of 1 1/2% above a base rate as announced by The First National Bank of Boston or, at TennRail's option, a Eurodollar rate plus 2 1/4%. On January 8, 1992, TennRail entered into an

Interest Rate Swap Agreement with The First National Bank of Boston regarding the TennRail Loan Agreement establishing a fixed interest rate of 7.91% until December 29, 1995 for decreasing amounts of principal ranging from \$14,000,000 to \$8,000,000. The obligations under the TennRail Loan Agreement are secured by substantially all of the assets of TennRail. The TennRail Subordinated Note with CCR, which bears interest at a rate of 11%, is due in 1999.

Borrowings under the Senior Secured Notes, the Consolidated Loan Agreement and the TennRail Loan Agreement are subject to certain restrictive and default covenants similar to prior covenants.

Substantially all the assets of the Company and its subsidiaries are pledged to secure the outstanding indebtedness of the Company, including a blanket lien on all of the assets of MidSouth Rail, MidLouisiana Rail, SouthRail and TennRail (including accounts receivable, contract rights, inventory, real property, rolling stock and plant and equipment) and a pledge to the Company's senior lenders of all the outstanding shares of MidSouth Rail, MidLouisiana Rail, SouthRail and TennRail. The Company also has revolving credit facilities under the Consolidated Loan Agreement and the TennRail Loan Agreement which permit the Company to borrow up to the lesser of \$10 million and \$1 million, respectively, or the sum of 80% of qualified receivables and 50% of qualified inventory, up to a maximum inventory amount of \$3 million and \$1 million, respectively.

In addition to funds from operations, other sources of liquidity during the first quarter of 1992 included the revolving credit facilities pursuant to which the Company was entitled at March 31, 1992 to borrow \$10 million under the Consolidated Loan Agreement of which \$1,010,000 was then outstanding and to borrow \$1 million under the TennRail Loan Agreement of which \$10,000 was then outstanding.

At March 31, 1992, the aggregate principal amount of the Company's outstanding long-term indebtedness was approximately \$139.5 million. Approximately \$36.3 million in principal amount of such indebtedness was owed under the Consolidated Loan Agreement, \$40 million was outstanding in Senior Secured Notes, \$37.5 million consisted of MidSouth's 12.95% Subordinated Notes, \$17.2 million was outstanding under the TennRail Loan Agreement and \$7.5 million was outstanding under the TennRail Subordinated Note.

The required principal payments on all indebtedness are anticipated to be \$7.6 million in 1992, \$13.8 million in 1993, \$16.7 million in 1994, \$21.0 million in 1995, \$24.7 million in 1996 and \$59.1 million thereafter.

In March 1989, the Company amended its Certificate of Incorporation to require redemption of its Preferred Stock in equal installments of \$6.5 million in March of 1990, 1991 and 1992. In July 1989, MidSouth completed a \$14,375,000 public offering and applied approximately \$6,500,000 of the proceeds to redeem Preferred Stock and approximately \$6,400,000 to the payment of accumulated dividends thereon. On February 26, 1991, the Company sold 1,146,667 shares of its Common Stock to ADM at \$7.50 per share for an aggregate purchase price of \$8.6 million. These proceeds were used to make the mandatory March 1991 redemption of \$6.5 million of Preferred Stock and pay the related dividends thereon. On March 21, 1991, the Company sold an additional 555,867 shares of Common Stock to ADM at \$7.50 per share for an aggregate purchase price of \$4.17 million. These proceeds were then used on April 1, 1991 to redeem the remaining Preferred Stock held by The Prospect Group, Inc. at a discount. On June 7, 1991, the Company sold 142,386 shares of Common Stock to ADM at \$7.50 per share for an aggregate purchase price of \$1.07 million. ADM's most recent purchase of 208,000 shares on December 31, 1991 gave ADM 2,052,920 shares of Common Stock or 20% of the outstanding shares of Common Stock of the Company. On October 1, 1991, the Company redeemed the remaining 1,831 shares of Preferred Stock outstanding for \$1.83 million and paid accumulated dividends of \$.11 million thereon.

The Company's net capital expenditures during the three months ended March 31, 1992 and the three months ended March 31, 1991 totalled \$3.0 million and \$3.2 million, respectively. Such expenditures were made primarily for track maintenance and rehabilitation. While the Company had not made any material commitments as of March 31, 1992 for any additional capital expenditures, management anticipates capital expenditures of approximately \$14 million in 1992.

At March 31, 1992 and at March 31, 1991, the Company had a working capital deficit of \$2.2 million and \$2.3 million, respectively. This deficit is primarily attributable to the highly leveraged nature of the Company's initial capitalization.

The Company anticipates that its existing credit facilities along with cash flow from operations will be sufficient to fund operating expenses, track maintenance, capital expenditures and debt service, and that its cash flow from operations will improve the Company's remaining negative working capital position over the long-term.

For federal income tax purposes, the Company had net operating loss carryforwards of approximately \$66.9 million as of December 31, 1991. These loss carryforwards will expire between 2001 and 2006. The loss carryforwards may be subject

to significant limitations on use under applicable provisions of the Internal Revenue Code of 1986, as amended, and under regulations issued by the United States Department of Treasury as a result of future changes that may occur in the Company's stock ownership. These changes, certain of which involve the acquisition of five percent or more of the Company's Common Stock, may be beyond the control of the Company. The Company has concluded that such limitations, if imposed, would have an adverse effect on the Company's cash flow, since the Company would be forced to use the loss carryforwards only over a significantly longer period of time. Whether such limitations are triggered and the amount and effect of such limitations will ultimately depend on a variety of factors, many of which are beyond the control of the Company.

Comparison of Three Months Ended March 31, 1992 to Three Months Ended March 31, 1991

MidSouth's total revenues for the first quarter ended March 31, 1992 increased to \$25.5 million, from \$22.8 million for the same period one year earlier. MidSouth carloadings for the first quarter of 1992 amounted to 67,100. Excluding TennRail, carloadings grew from 61,200 in 1991 to 62,200 in 1992, an increase of 1.6 percent.

Operating income for the first quarter of 1992 amounted to \$7.1 million or \$1.5 million better than the prior year. A revenue increase of \$2.8 million more than offset an increase in expenses of \$1.3 million. Excluding TennRail, revenues were up \$1.2 million over last year, while expenses were \$.4 million in excess of last year.

Interest expense for the quarter ended March 31, 1992 was \$3.8 million, approximately \$.7 million more than the quarter ended March 31, 1991. TennRail accounted for \$549,000 of this increase.

The provision for income taxes for the quarter ended March 31, 1992 was \$1.3 million, based on an effective tax rate of 38%. Approximately 59 percent of these taxes were deferred because of the excess of tax depreciation over book depreciation. The provision for income taxes for the quarter ended March 31, 1991 was \$1.0 million, also based on an effective tax rate of 38%.

MidSouth's net income before Preferred Stock dividend requirements for the quarter ended March 31, 1992 was \$2.0 million, compared to \$1.6 million for the quarter ended March 31, 1991. Net income available to Common Stock for the first quarter of 1992 was \$2.0 million, compared to \$1.3 million for the same period one year earlier. The additional improvement in net income available to Common Stock stemmed

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from the elimination of the Preferred Stock dividend requirements following the redemption of all of the Company's Preferred Stock in 1991.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

SouthRail has been involved in an abandonment proceeding which, until recently, had been pending before the United States Court of Appeals for the Eleventh Circuit. SouthRail originally filed an application with the Interstate Commerce Commission ("ICC") to abandon 75 route miles of rail line. The line proposed for abandonment extends between Waynesboro, Mississippi and just north of Mobile, Alabama. This abandonment was opposed by communities, shippers and state and local government officials. The ICC granted SouthRail authority to abandon the line. The protestors then filed an appeal of the ICC's decision with the United States Court of Appeals for the Eleventh Circuit. By decision dated April 30, 1992, the United States Court of Appeals for the Eleventh Circuit affirmed the ICC's approval of the abandonment application. On May 5, 1992, SouthRail notified the ICC that it would cancel applicable tariffs and abandon the line on May 15, 1992.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Company held its 1991 Annual Meeting of Stockholders on Friday, May 8, 1992.

(b) At the Annual Meeting, the Company's stockholders voted to elect Messrs. Gaskins, Levin, Rowe, Taylor, Tolles, Turner, Whitfield and Winter each to serve for a one-year term on the Company's Board of Directors.

(c) At the Annual Meeting, the Company's stockholders voted to approve and ratify an amendment to the Company's Certificate of Incorporation (the "Certificate") increasing from 12,000,000 to 16,000,000 the number of authorized shares of Common Stock and creating a new class of Preferred Stock with 100,000 authorized shares. The amendment to the Certificate was approved by a vote of 5,452,418 (for such amendment) to 2,524,487 (against such amendment) with 58,560 shares voting to abstain from the vote.

In addition, the stockholders voted to approve and ratify an amendment to the Company's Stock Option Plan (the "Plan") to increase from 425,000 to 750,000 the number of shares reserved for issuance under the Plan and allow nonemployee directors to be eligible for the grant of stock options under the Plan. The

amendment to the Plan was approved by a vote of 8,340,019 (for such amendment) to 735,806 (against such amendment) with 64,456 shares voting to abstain from the vote.

(d) Not applicable.

Item 6. Exhibits and Reports on Form S-K.

(a) The Exhibits listed on the accompanying Exhibit Index are filed as part of this report.

(b) During the fiscal quarter for which this report is filed, MidSouth Corporation filed a report on Form S-K dated January 15, 1992, pursuant to Items 2 and 7 thereof.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by John A. Scotto, duly authorized to sign on behalf of the registrant and as the principal financial officer thereof.

MIDSOUTH CORPORATION

Dated: May 14, 1992

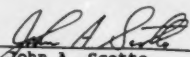
By: 
John A. Scotto
Vice President and Chief
Financial Officer,
Secretary and Treasurer

EXHIBIT INDEX

<u>Exhibit Number</u>		<u>Page Number</u>
3.1	Restated Certificate of Incorporation, effective May 15, 1992	17
10.1	MidSouth Corporation 1987 Stock Option Plan, as amended through May 8, 1992	24

EXHIBIT 3.1

RESTATED
CERTIFICATE OF INCORPORATION
OF
MIDSOUTH CORPORATION

(Incorporated March 13, 1986 under the name
MidSouth Rail Holding Company)

FIRST: Name. The name of the Corporation is MIDSOUTH CORPORATION.

SECOND: Delaware Office and Registered Agent. The address of the registered office of the Corporation in the State of Delaware is 229 South State Street, in the City of Dover, County of Kent. The name of its registered agent for service of process at such address is United States Corporation Company.

THIRD: Purpose. The nature of the business or purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware. The Corporation shall possess and exercise all the powers and privileges granted by the General Corporation Law of the State of Delaware, by any law or by this Restated Certificate of Incorporation, together with any powers incidental thereto as far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the purposes of the Corporation.

FOURTH: Capital Stock.

1. **Authorized Number and Classes of Stock.** The total number of shares which the Corporation shall have the authority to issue is 16,100,000 shares of capital stock as follows: 100,000 shares of Preferred Stock (the "Preferred Stock"), and 16,000,000 shares of Common Stock, par value \$0.20 per share (the "Common Stock").

2. **Preferences, Privileges, Restrictions and Rights of Classes of Stock.** The preferences, privileges, restrictions and rights granted to or imposed on the respective shares are as follows:

2.1 Preferred Stock. Subject to the limitations prescribed by applicable law and the provisions of this Restated Certificate of Incorporation of the Corporation, the Board of Directors is hereby empowered to cause the Preferred Stock to be issued from time to time for such consideration as it may from time to time fix, and to cause such Preferred Stock to be issued in one or more classes of Preferred Stock, preference stock, special stock or other stock, and to divide and classify shares of any class into one or more series of such class, with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions of the Board of Directors providing for the issuance of such stock, including without limitation the following:

(a) Designation. The distinctive designation of such class or series and the number of shares to constitute such class or series; provided that, unless otherwise prohibited by the terms of such other or any class or series, the number of shares of any such class or series may be decreased (but not below the number of shares of Preferred Stock then outstanding) by the Board of Directors in connection with any classification or reclassification of unissued shares, and the number of shares of such class or series may be increased (but not above the total number of authorized shares of Preferred Stock) by the Board of Directors in connection with any such classification or reclassification, and any shares of any class or series which have been redeemed, purchased, otherwise acquired or converted into shares of Common Stock or any other class or series shall become part of the authorized capital stock and be subject to classification and reclassification as provided in this Section.

(b) Dividends. Whether or not and, if so, the rate, amounts and times at which, and the conditions under which, dividends shall be payable on shares of such class or series, whether and the extent to which any such dividends shall rank senior or junior to or on a parity with the dividends payable on any other class or series of stock, and the status of any such dividends as cumulative (and if so, from what date or dates), cumulative to a limited extent or non-cumulative and as participating or non-participating.

(c) Voting. Whether or not shares of such class or series shall have voting rights in addition to any voting rights provided by applicable law and, if so, the terms of such voting rights.

(d) Conversion. Whether or not shares of such class or series shall have conversion or exchange privileges and, if so, the terms and conditions thereof, including the conversion price or prices, the rates of exchange and provision for adjustment

of the conversion or exchange rate upon such events or at such times as the Board of Directors shall determine.

(e) Redemption. Whether or not shares of such class or series shall be subject to redemption and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; and whether or not there shall be any sinking or retirement funds or purchase account in respect thereof, and if so, the terms and provisions, including those relating to the operation thereof.

(f) Liquidation. The rights of the holders of shares of such class or series upon the liquidation, dissolution or winding up of the affairs of, or upon any distribution of the assets of, the Corporation, which rights may vary depending upon whether such liquidation, dissolution or winding up is voluntary or involuntary and, if voluntary, may vary at different dates, and whether such rights shall rank senior or junior to or on a parity with such rights of any other class or series.

(g) Restrictions. Whether or not there shall be any limitations applicable, while shares of such class or series are outstanding, upon the payment of dividends or making of distributions on, or the acquisition of, or the use of monies for purchase or redemption of, any stock of the Corporation, or upon any other action of the Corporation, including action under this Section, and, if so, the terms and conditions thereof.

(h) Ranking. For the purposes hereof and of any certificate of designation providing for the classification or reclassification of any unissued shares of Preferred Stock or of any other charter document of the Corporation (unless otherwise provided in any such certificate or document), any class or series of stock of the Corporation shall be deemed to rank:

(i) prior to another class or series either as to dividends or upon liquidation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable on liquidation, dissolution or winding up, as the case may be, in preference or priority to holders of such other class or series;

(ii) on a parity with another class or series either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates or redemption or liquidation price per share thereof be different from comparable terms of such others, if the holder of such class or series shall be entitled to receipt of dividends or amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rate or redemption or liquidation prices,

without preference or priority over the holders of such other class or series; and

(iii) junior to another class or series of stock either as to dividends or upon liquidation, if the rights of the holders of such class or series shall be subject or subordinate to the rights of the holders of such other class or series in respect of the receipt of dividends or the amounts distributable upon liquidation, dissolution or winding up, as the case may be.

(i) Miscellaneous. Any other preferences, rights, restrictions, including restrictions on transferability, and qualifications of shares of such class or series, not inconsistent with applicable law and this Restated Certificate of Incorporation of the Corporation.

2.2 Common Stock.

(a) Dividends. Subject to the prior rights of the holders of the Preferred Stock to be paid dividends as may be established pursuant to Section 2.1 hereof, each holder of shares of Common Stock shall be entitled to share in dividends ratably with all other holders of shares of Common Stock then outstanding, when, if and as such dividends are declared and paid.

(b) Voting Rights. Each holder of Common Stock shall be entitled to vote on all matters upon which stockholders are entitled to vote under the General Corporation Law of the State of Delaware and each holder of Common Stock entitled to vote at any time shall have one vote for each share of Common Stock held of record. Whenever any holders of Common Stock shall be entitled to vote, all such holders shall vote as one class.

(c) Liquidation Rights of Common Stock. Upon any liquidation, dissolution or winding up of the Corporation, after payment in full of all amounts to which the holders of the Preferred Stock then outstanding are entitled to receive pursuant to Section 2.1(f) above, each holder of Common Stock then outstanding shall be entitled to share in any distribution of the remaining assets of the Corporation ratably with all other holders of shares of Common Stock then outstanding in accordance with their holdings of such shares.

FIFTH: Management of the Affairs of the Corporation. The following provisions relate to the management of the business and the conduct of the affairs of the Corporation and are inserted pursuant to Section 102(b)(1) of the General Corporation law of the State of Delaware for the purpose of creating, defining limiting and regulating the powers of the Corporation and its Directors and stockholders:

1. The election of Directors may be conducted in any manner the By-Laws provide, and need not be by written ballot.

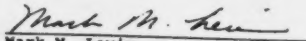
2. The Board of Directors shall have the power to make, alter, amend or repeal the By-Laws of the Corporation, except to the extent that the By-Laws otherwise provide.

SIXTH: Reorganization. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or the class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

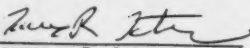
SEVENTH: Reservation of Right to Amend. The Corporation reserves the right to amend or repeal any provisions contained in this Restated Certificate of Incorporation from time to time and at any time in the manner now or hereafter prescribed by the law of the State of Delaware, and all rights herein conferred upon stockholders, Directors and officers are subject to this reserved power.

EIGHTH: Indemnification. In addition to the rights of indemnification contained in the By-Laws of the Corporation, no Director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the Director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the Director derived an improper personal benefit.

IN WITNESS WHEREOF, the undersigned do hereby certify that this Restated Certificate of Incorporation, which amends and restates the certificate of incorporation of the Corporation, as heretofore amended and restated, was duly authorized and adopted by the Board of Directors of the Corporation and the stockholders of the Corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware and that they have executed this Restated Certificate of Incorporation this 8th day of May, 1992. This Restated Certificate of Incorporation shall become effective at, and not until, 12:01 A.M. on May 15, 1992.


Mark M. Levin
Chairman of the Board and
Chief Executive Officer

ATTEST:


Laurence R. Latourette
Assistant Secretary

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EXHIBIT 10.1

MIDSOUTH CORPORATION

1987 Stock Option Plan, as Amended
as of December 6, 1988, June 29, 1989,
May 25, 1990 and May 8, 1992

SECTION 1. Establishment. There is hereby established the 1987 Stock Option Plan, as amended (the "Plan"), pursuant to which employees and any other persons who perform substantial services for or on behalf of MIDSOUTH CORPORATION (the "Company"), its subsidiaries and certain other entities may be granted options to purchase shares of common stock of the Company, par value \$0.20 per share ("Common Stock"), and thereby share in the future growth of the business. The subsidiaries of the Company included in this Plan (the "Subsidiaries") shall be any subsidiary of the Company as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code").

SECTION 2. Status of Options. The options which may be granted pursuant to this Plan will constitute either incentive stock options within the meaning of Section 422 of the Code ("Incentive Stock Options") or options which are not Incentive Stock Options ("Non-Incentive Stock Options"). Incentive Stock Options and Non-Incentive Stock Options shall be collectively referred to herein as "Options".

SECTION 3. Eligibility. All employees of the Company or any of its Subsidiaries (including officers, whether or not they are members of the Board of Directors) who are employed at the time of the adoption of this Plan or thereafter, and any other persons who perform substantial services for or on behalf of the Company or any of its Subsidiaries, affiliates or any entity in which the Company has an interest (collectively, the "optionee") shall be eligible to be granted Non-Incentive Stock Options to purchase shares of Common Stock under this Plan. Nonemployee Directors of the Company shall be eligible for the grant of Non-Incentive Stock Options pursuant to the terms of Section 8 hereof. All employees of the Company or any of its Subsidiaries who are employed at the time of adoption of this Plan or thereafter shall be eligible to be granted Incentive Stock Options under this Plan.

SECTION 4. Number of Shares Covered by Options; No Preemptive Rights. The total number of shares which may be issued and sold pursuant to Options granted under this Plan shall be 750,000 shares of Common Stock (or the number and kind of shares of stock or other securities which, in accordance with Section 9 of this Plan, shall be substituted for such shares of Common Stock or to which said shares shall be adjusted; hereinafter, all references to shares of Common Stock

are deemed to be references to said shares or shares so adjusted). The issuance of said shares shall be free from any preemptive or preferential right of subscription or purchase on the part of any stockholder.

SECTION 5. Administration.

(a) This Plan shall be administered by the committee (the "Committee") referred to in paragraph (b) of this Section. Subject to the express provisions of this Plan, the Committee shall have complete authority, in its discretion, to interpret this Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements (which need not be identical), to determine the optionee to whom, and the times and the Prices at which, Options shall be granted, the option periods, the number of shares of the Common Stock to be subject to each Option and whether each Option shall be an Incentive Stock Option or a Non-Incentive Stock Option, and to make all other determinations necessary or advisable for the administration of the Plan. Each Option shall be clearly identified at the time of grant as to its status. In making such determinations, the Committee may take into account the nature of the services rendered by the respective optionee, their present and potential contributions to the success of the Company and such other factors as the Committee in its discretion, shall deem relevant. The Committee's determination on all of the matters referred to in this Section 5 shall be conclusive.

(b) The Committee shall consist of from two (2) to five (5) individuals who are members of the Board. Each member of the Committee shall be a person who is not, while serving on the Committee, and who, during the period for one year ending on the date of his appointment to the Committee, has not been, a person to whom stock options, warrants or similar rights (including stock appreciation rights) may be granted under this Plan and/or any other plan of the Company and/or any of its Subsidiaries (except as permitted by Rule 16(b)-3(c)(2)(i) under the Securities Exchange Act of 1934). The Committee shall be appointed by the Board, which may at any time, and from time to time, remove any member of the Committee, with or without cause, appoint additional members to the Committee and fill vacancies, however caused, in the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made at a meeting duly called and held. Nothing contained in this Plan shall be deemed to give any optionee any right to be granted an Option to purchase shares of Common

Stock except to the extent and upon such terms and conditions as may be determined by the Committee.

(c) The Committee may at its election provide in any option agreement covering the grant of Options under this Plan that, upon the exercise of such Options, the Company will loan to the holder thereof such amount as shall equal the purchase price of the shares of Common Stock issuable upon such exercise, such loan to be on terms and conditions deemed appropriate by the Committee.

SECTION 6. Terms of Incentive Stock Options.

Each Incentive Stock Option granted under this Plan shall be evidenced by an Incentive Stock Option Agreement which shall be executed by the Company and by the person to whom such Incentive Stock Option is granted, and shall be subject to the following terms and conditions:

(a) The price at which shares of Common Stock covered by each Incentive Stock Option may be purchased pursuant thereto shall be determined in each case on the date of grant by the Committee, but shall be an amount not less than the par value of such shares and not less than the fair market value of such shares on the date of grant. For Purposes of this Section, the fair market value of shares of Common Stock on any day shall be (i) in the event the Common Stock is not publicly traded, the fair market value on such day as determined in good faith by the Committee or (ii) in the event the Common Stock is publicly traded, the last sale price of a share of Common Stock as reported by the principal quotation service on which the Common Stock is listed, or, if there is no such report by such quotation service for such day, such fair market value shall be the average of (i) the last sale price on the day next preceding such day for which there was a report and (ii) the last sale price on the day next succeeding such day for which there was a report, or as otherwise determined by the Committee in its discretion pursuant to any reasonable method contemplated by Section 422 of the Code and any regulations issued pursuant to that Section.

(b) The Option price of the shares to be purchased pursuant to each Incentive Stock Option shall be paid in full in cash, or by delivery (i.e. surrender) of shares of Common Stock of the Company then owned by the optionee, at the time of the exercise of the Incentive Stock Option. Shares of Common Stock so delivered will be valued on the day of delivery for the purpose of determining the extent to which the option price has been paid thereby, in the same manner as provided for the purchase price of Incentive Stock Options as set forth in paragraph (a) of this Section, or as otherwise determined by the Committee, in its discretion, pursuant to any reasonable

method contemplated by Section 422 of the Code and any regulations issued pursuant to that Section.

(c) Each Incentive Stock Option Agreement shall Provide that such Incentive Stock Option may be exercised by the optionee, in such parts and at such times as may be specified in such Agreement, within a period not exceeding ten years after the date on which the Incentive Stock Option is granted (hereinafter called the "Incentive Stock Option Period") and in any event, only during the continuance of the employee's employment by the Company or any of its subsidiaries or during the Period of three months after the termination of such employment to the extent that the right to exercise such Incentive Stock Option had accrued at the date of such termination; provided, however, that if Incentive Stock Options as to 100 or more shares are held by an optionee, then such Incentive Stock Options may not be exercised for less than 100 shares at any one time, and if Incentive Stock Options for less than 100 shares are held by an optionee, then Incentive Stock Options for all such shares must be exercised at one time; and provided, further, that, if the optionee, while still employed by the Company or any of its Subsidiaries, shall die within the Incentive Stock Option Period, the Incentive Stock Option may be exercised, to the extent specified in the Incentive Stock Option Agreement, and as herein provided, but only prior to the first to occur of:

(i) the expiration of the period of one year after the date of the optionee's death, or

(ii) the expiration of the Incentive Stock Option Period, by the person or persons entitled to do so under the optionee's will, or, if the optionee shall fail to make testamentary disposition of said Incentive Stock Option, or shall die intestate, by the optionee's legal representative or representatives.

(d) Each Incentive Stock Option granted under this Plan shall by its terms be non-transferable by the optionee except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code, and each Incentive Stock Option shall by its terms be exercisable during the optionee's lifetime only by him.

(e) Notwithstanding the foregoing, if an Incentive Stock Option is granted to a person at any time when such person owns, within the meaning of Section 424(d) of the Code, more than 10% of the total combined voting power of all classes of stock of the employer corporation (or a parent or Subsidiary of such corporation within the meaning of Section 424 of the Code) the price at which each share of Common Stock

covered by such Incentive Stock Option may be purchased pursuant to such Incentive Stock Option shall not be less than 110% of the fair market value (determined as in paragraph (a) of this Section) of the shares of Common Stock at the time the Incentive Stock Option is granted, and such Incentive Stock Option must be exercised within a period specified in the Incentive Stock Option Agreement which does not exceed five years after the date on which such Incentive Stock Option is granted.

(f) The Incentive Stock Option Agreement entered into pursuant hereto may contain such other terms, provisions and conditions not inconsistent herewith as shall be determined by the Committee including, without limitation, provisions (i) requiring the giving of satisfactory assurances by the optionee that the shares are purchased for investment and not with a view to resale in connection with a distribution of such shares, and will not be transferred in violation of applicable securities laws, (ii) restricting the transferability of such shares during a specified period and (iii) requiring the resale of such shares to the Company at the option price if the employment of the employee terminates prior to a specified time. In addition, the Committee, in its discretion, may afford to holders of Incentive Stock Options granted under this Plan the right to require the Company to cause to be registered under the Securities Act of 1933, as amended, for public sale, by the holders thereof, shares of Common Stock subject to such Incentive Stock Options Upon such terms and subject to such conditions as the Committee may determine to be appropriate.

(g) In the discretion of the Committee, a single Stock Option Agreement may include both Incentive Stock Options and Non-Incentive Stock Options, or those options may be included in separate stock option agreements.

SECTION 7. Terms of Non-Incentive Stock Options. Each Non-Incentive Stock Option granted under this Plan shall be evidenced by a Non-Incentive Stock Option Agreement which shall be executed by the Company and by the person to whom such Non-Incentive Stock Option is granted, and shall be subject to the following terms and conditions except that in the case of Non-Incentive Stock Options granted to Nonemployee Directors pursuant to Section 8 hereof, the terms and conditions of such options shall be subject in all cases, and not inconsistent with, the terms of Section 8 hereof:

(a) The price at which shares of Common Stock covered by each Non-Incentive Stock Option may be purchased pursuant thereto shall be determined in each case on the date of grant by the Committee, but shall be an amount not less than the par value of such shares and not less than 85 percent of the fair market value of such shares on the date of grant, such

fair market value to be determined pursuant to the procedures set forth in Section 6(a).

(b) Each Non-Incentive Stock Option Agreement shall provide that such Non-Incentive Stock Option may be exercised by the optionee, in such parts and at such times as may be specified in such Agreement, within a period up to and including ten years and thirty days after the date on which the Non-Incentive Stock Option is granted.

(c) The Non-Incentive Stock Option Agreement entered into pursuant hereto may contain such other terms, provisions and conditions not inconsistent herewith as shall be determined by the Committee, in its sole discretion, including without limitation the terms, provisions and conditions set forth in Section 6(f) with respect to Incentive Stock Option Agreements.

SECTION 8. Nonemployee Director Stock Options.

(a) Initial Grant of Options. Each individual who is a Nonemployee Director ("Participant") on June 1, 1992, shall be granted an Option to purchase two thousand (2,000) shares, effective June 1, 1992. The specific terms and provisions of such options shall be incorporated in Award Agreements, executed pursuant to Section 8(d) of the Plan.

(b) Subsequent Grants of Options. Subject to the limitation on the number of shares subject to the Plan, each individual who is not an employee and who is elected or reelected during the term of the Plan by the stockholders of the Company to serve on the Board of Directors, shall be granted an Option to purchase two thousand (2,000) shares on each first business day in June following each such election and/or reelection to serve on the Board.

(c) Limitation on Grant of Options. Other than those grants of Options set forth in Sections 8(a) and 8(b) herein, no additional Options shall be granted to Nonemployee Directors under the Plan.

(d) Option Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of shares available for purchase under the Option, and such other provisions as the Board shall determine.

(e) Option Price. The purchase price per share available for purchase under an Option shall equal the fair market value of a share, such fair market value to be determined pursuant to the procedures set forth in Section 6(a).

(f) Duration of Options. Each Option shall expire on the tenth (10th) anniversary date of its grant.

(g) Vesting of Shares Subject to Option. Participants shall be entitled to exercise Options at any time and from time to time, within the time period beginning thirty (30) days after the grant of the Option, and ending ten (10) years after grant of the Option, and according to the following vesting schedule:

<u>Grant Date</u>	<u>Annual Percentage of Shares which may be Purchased Under Option</u>	<u>Cumulative Percentage of Shares which may be Purchased Under Option</u>
As of the Date of Grant to the first anniversary of the Date of Grant	25%	25%
From the first anniversary of the Date of Grant to the second anniversary	25%	50%
From the second anniversary of the Date of Grant to the third anniversary	25%	75%
From the third anniversary of the Date of Grant to the tenth anniversary	25%	100%

Regardless of the vesting schedule set forth in this Section 8(g), all Options held by a Participant shall immediately become one hundred percent (100%) vested upon the first to occur of the following:

- (a) The completion of the vesting schedule set forth above; or
- (b) The death of the Participant; or
- (c) The Disability of the Participant; or
- (d) The effective date of a Change in Control of the Company.

(h) Termination of Directorship. In the event a Participant ceases to be a Director for any reason other than death or Disability, all Options not vested as of the effective date of termination shall be forfeited and shall revert back to the Company (with no further vesting to occur). All Options which are vested as of such date shall remain exercisable for six (6) months following the date the Director's service on the Board terminates, or until their expiration date, whichever period is shorter.

To the extent an Option is exercisable immediately following the date of death of a Participant, it shall remain exercisable at any time prior to its expiration date, or for one (1) year after the date of death, whichever period is shorter, by such persons that have acquired the Participant's rights under the Option by will or by the laws of descent and distribution.

To the extent an Option is exercisable immediately following the date that the Board determines that the definition of Disability is satisfied with respect to a Participant (the "Disability Date"), it shall remain exercisable at any time prior to its expiration date, or for one (1) year after the Disability Date, whichever period is shorter, by the Participant or such person or persons as shall have been named as the Participant's legal representative or beneficiary.

Options which vest pursuant to a Change in Control shall remain exercisable throughout their entire term.

(i) Restrictions on Share Transferability. The Board shall impose such restrictions on any shares acquired pursuant to the exercise of an Option under the Plan, as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such shares; provided, however, that no such restriction shall be imposed if the restriction could result in the failure to comply with the "formula award" exception for grants of Awards to Directors, as set forth in Rule 16b-3(c)(2)(i) of the Exchange Act.

(j) Nontransferability of Options. No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code. Further, all Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

SECTION 9. Limit on Option Amount. The aggregate fair market value (determined under Section 6(a) as of the time such Incentive Stock Options are granted) of the Common Stock with respect to which Incentive Stock Options are first exercisable by any employee during any calendar year (under all stock option plans of the employee's employer corporation and its parent and subsidiary corporations within the meaning of Section 424 of the Code) shall not exceed \$100,000. The limitation in this Section shall not apply to options which are designated as Non-Incentive Stock Options, and, except as otherwise provided herein, there shall be no limit on the amount of such options which may be first exercisable in any year.

SECTION 10. Adjustment of Number of Shares. In the event that a dividend shall be declared upon the shares of Common Stock payable in shares of Common Stock, the number of shares of Common Stock then subject to any Option granted hereunder, and the number of shares reserved for issuance pursuant to this Plan but not yet covered by an Option, shall be adjusted by adding to each of such shares the number of shares which would be distributable thereon if such share had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend. In the event that the outstanding shares of Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of Common Stock subject to any such Option and for each share of Common Stock reserved for issuance pursuant to the Plan but not yet covered by an Option, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged; provided, however, that in the event that such change or exchange results from a merger or consolidation, and in the judgment of the Board of Directors such substitution cannot be effected or would be inappropriate, or if the Company shall sell all or substantially all of its assets, the Company shall use reasonable efforts to effect some other adjustment of each then outstanding Option which the Board of Directors, in its sole discretion, shall deem equitable. In the event that there shall be any change, other than as specified above in this Section 9, in the number or kind of outstanding shares of Common Stock or of any stock or other securities into which such shares of Common Stock shall have been changed or for which they shall have been exchanged, then, if the Board of Directors shall determine that such change equitably requires an adjustment in the number or kind of shares theretofore reserved for issuance pursuant to the Plan but not yet covered by an Option and of the shares then

subject to an Option or Options, such adjustment shall be made by the Board of Directors and shall be effective and binding for all purposes of this Plan and of each stock option agreement. Notwithstanding the foregoing, if any adjustment in the number of shares which may be issued and sold pursuant to Options is required by the Code or regulations issued pursuant thereto to be approved by the stockholders in order to enable the Company to issue Incentive Stock Options pursuant to this Plan, then no such adjustment shall be made without the approval of the stockholders. In the case of any such substitution or adjustment as provided for in this Section, the option price in each stock option agreement for each share covered thereby prior to such substitution or adjustment will be the total option price for all shares of stock or other securities which shall have been substituted for each such share or to which such share shall have been adjusted pursuant to this Section 9. No adjustment or substitution provided for in this Section 9 shall require the Company, in any stock option agreement, to sell a fractional share, and the total substitution or adjustment with respect to each stock Option agreement shall be limited accordingly. Notwithstanding the foregoing, in the case of Incentive Stock Options, if the effect of the adjustments or substitution is to cause the Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option or to cause a modification, extension or renewal of such Incentive Stock Option within the meaning of Section 424 of the Code, the Board of Directors shall use reasonable efforts to effect such other adjustment of each then outstanding option as the Board of Directors, in its sole discretion, shall deem equitable.

SECTION 11. Amendments. This Plan may be terminated or amended from time to time by vote of the Board of Directors; provided, however, that no amendment which shall (i) change the total number of shares which may be issued and sold pursuant to Options granted under this Plan, (ii) change the designation of employees eligible to receive Incentive Stock Options or class of employees or other persons eligible to receive Options, (iii) decrease the minimum option prices stated in Sections 6(a), 7(a) or 8(e) of this Plan, (iv) extend the period during which an Option may be granted or exercised beyond the maximum specified in this Plan or (v) withdraw the authority to administer this Plan from the Committee, shall be effective without the approval of the stockholders. In no event, however, shall Section 8 be amended more than once every six months other than to comply with the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

SECTION 12. Termination. Except to the extent necessary to govern outstanding Options, this Plan shall terminate on, and no additional Options shall be granted after, ten years from the date the Plan is adopted, or ten years from the date the Plan is approved by the stockholders, whichever is earlier.

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

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(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 27, 1992

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from _____ to _____

Commission File Number

0-15105

SCOTT & STRINGFELLOW FINANCIAL, INC.

(Exact name of Registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

54-1315256

(I.R.S. Employer Identification No.)

909 East Main Street
Richmond, Virginia

(Address of principal executive offices)

23219

(Zip Code)

Registrant's telephone number, including area code.....(804) 643-1811

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

At May 5, 1992, there were 1,756,573 shares of Scott & Stringfellow Financial, Inc. common stock, par value \$.10, issued and outstanding.

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SCOTT & STRINGFELLOW FINANCIAL, INC.

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SCOTT & STRINGFELLOW FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	March 27, 1992 <u>(unaudited)</u>	June 28, 1991
Assets		
Cash and cash equivalents	\$ 6,957,333	\$ 1,798,092
Cash segregated under federal regulations	600,010	1,000,010
Receivable from brokers, dealers and clearing organizations	1,959,672	1,505,930
Receivable from customers	35,293,398	34,254,123
Trading and investment securities	7,415,918	9,585,714
Exchange memberships, at cost	848,050	848,050
Office equipment and leasehold improvements, at cost less accumulated depreciation and amortization	1,347,241	1,327,353
Other assets	<u>4,769,555</u>	<u>3,656,439</u>
	\$ 59,191,177	\$ 53,975,711
	=====	=====
<u>Liabilities and Stockholders' Equity</u>		
Drafts payable	\$ -	\$ 2,073,522
Securities sold under agreements to repurchase	18,750	-
Payable to brokers, dealers and clearing organizations	741,797	267,944
Payable to customers	31,259,094	27,841,884
Securities sold, but not yet purchased, at market value	605,907	396,873
Deferred income taxes	100	125,571
Accounts payable, accrued compensation and other liabilities	<u>5,819,892</u>	<u>4,746,464</u>
	<u>38,465,540</u>	<u>35,452,258</u>
Commitments and contingencies		
Stockholders' Equity:		
Common stock	180,737	179,919
Additional paid-in capital	9,523,103	9,414,573
Retained earnings	<u>11,021,797</u>	<u>8,928,961</u>
Total stockholders' equity	<u>20,725,637</u>	<u>18,523,453</u>
	\$ 59,191,177	\$ 53,975,711
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

SCOTT & STRINGFELLOW FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

For the Three
Months Ended

	March 27, 1992	March 28, 1991
Revenues		
Commissions	\$ 6,705,307	\$ 5,543,022
Investment banking	2,324,561	432,547
Principal transactions	2,774,690	2,756,857
Interest and dividends	852,323	940,549
Advisory and administrative service fees	548,898	494,165
Other revenues	<u>67,789</u>	<u>25,859</u>
Total revenues	<u>13,273,568</u>	<u>10,192,999</u>
Expenses		
Employee compensation and benefits	8,412,422	6,194,908
Communications	563,338	539,702
Interest	213,638	299,390
Occupancy and equipment	484,619	531,269
Brokerage, clearing and exchange fees	269,393	230,338
Advertising and sales promotion	274,803	200,618
Postage, stationery and supplies	303,200	267,347
Data processing	224,405	169,722
Other operating expenses	<u>809,322</u>	<u>741,505</u>
Total expenses	<u>11,555,140</u>	<u>9,174,799</u>
Income before income taxes	1,718,428	1,018,200
Income tax expense	<u>655,000</u>	<u>360,000</u>
Net Income	<u>\$ 1,063,428</u>	<u>\$ 658,200</u>
Earnings per common share	<u>\$ 0.59</u>	<u>\$ 0.37</u>
Dividends declared per common share	<u>\$ 0.08</u>	<u>\$ 0.07</u>
Average common shares outstanding	<u>1,799,666</u>	<u>1,799,710</u>

The accompanying notes are an integral part of the consolidated financial statements.

SCOTT & STRINGFELLOW FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Nine Months Ended	
	March 27, 1992	March 28, 1991
Revenues		
Commissions	\$ 17,210,008	\$ 13,800,420
Investment banking	5,971,295	1,155,228
Principal transactions	7,556,421	6,639,931
Interest and dividends	2,768,157	2,974,422
Advisory and administrative service fees	1,605,738	1,338,133
Other revenues	<u>164,819</u>	<u>76,031</u>
Total revenues	<u>25,276,438</u>	<u>25,984,165</u>
Expenses		
Employee compensation and benefits	21,948,495	15,624,935
Communications	1,690,622	1,597,112
Interest	737,922	927,208
Occupancy and equipment	1,509,141	1,591,699
Brokerage, clearing and exchange fees	738,028	702,634
Advertising and sales promotion	789,926	696,886
Postage, stationery and supplies	829,529	753,326
Data processing	546,877	491,880
Other operating expenses	<u>2,467,885</u>	<u>2,089,517</u>
Total expenses	<u>31,258,425</u>	<u>24,475,197</u>
Income before income taxes	4,018,013	1,508,968
Income tax expense	<u>1,485,000</u>	<u>515,000</u>
Net Income	<u>\$ 2,533,013</u>	<u>\$ 993,968</u>
Earnings per common share	<u>\$ 1.41</u>	<u>\$ 0.54</u>
Dividends declared per common share	<u>\$ 0.23</u>	<u>\$ 0.20</u>
Average common shares outstanding	<u>1,799,411</u>	<u>1,810,980</u>

The accompanying notes are an integral part of the consolidated financial statements.

SCOTT & STRINGFELLOW FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended March 27, 1992 and March 28, 1991
(Unaudited)

	<u>1992</u>	<u>1991</u>
<u>Cash flows from operating activities:</u>		
Net income	\$ 2,533,012	\$ 993,968
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	262,443	373,003
Loss on disposal of equipment	-	12,677
Deferred income taxes	(125,471)	-
Change in assets and liabilities, net of effects of acquisition of Scott & Stringfellow Realty:		
Cash segregated under federal regulations	400,000	(8,201,785)
Receivable from brokers, dealers and clearing organizations	(453,742)	(1,516,943)
Receivable from customers	(1,039,275)	2,007,506
Trading and investment securities	2,169,796	1,856,692
Other assets	204,861	(321,125)
Payable to brokers, dealers and clearing organizations	473,853	(907,110)
Payable to customers	3,417,210	6,927,488
Securities sold, but not yet purchased	209,034	13,761
Accounts payable, accrued compensation and other liabilities	<u>1,093,428</u>	<u>375,381</u>
Net cash provided by operating activities	<u>9,145,149</u>	<u>1,613,513</u>
<u>Cash flows from financing activities:</u>		
Drafts payable	(2,073,522)	749,818
Net change in securities sold under agreements to repurchase	18,750	(25,000)
Cash dividends	(414,496)	(353,834)
Purchase and retirement of common stock	(47,000)	(1,222,823)
Issuance of common stock	<u>130,668</u>	<u>-</u>
Net cash used in financing activities	<u>(2,385,600)</u>	<u>(851,839)</u>
<u>Cash flows from investing activities</u>		
Purchase of Scott & Stringfellow Realty	(1,094,373)	-
Capital expenditures	(272,723)	(156,176)
Increase in loans receivable	143,205	-
Repayment of loans receivable	<u>(376,417)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,600,308)</u>	<u>(1,56,176)</u>
Net increase in cash and cash equivalents	5,159,241	605,498
Cash and cash equivalents at beginning of period	<u>1,798,092</u>	<u>719,379</u>
Cash and cash equivalents at end of period	<u>\$ 6,957,333</u>	<u>\$ 1,324,877</u>
Cash paid during the period for interest	\$ 739,635	\$ 998,299
Cash paid during the period for income taxes	\$ 1,035,684	\$ 265,076

The accompanying notes are an integral part of the consolidated financial statements.

SCOTT & STRINGFELLOW FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation:
Scott & Stringfellow Financial, Inc. (the Company) is a holding company that owns all of the outstanding capital stock of Scott & Stringfellow Investment Corp. ("S & S") and of other diversified financial services subsidiaries. S & S, the Company's principal subsidiary, is a broker-dealer registered under the Securities Exchange Act of 1934.

These interim consolidated financial statements are unaudited; however, such information reflects all normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the period in accordance with generally accepted accounting principles. The nature of the Company's business is such that the results of any interim period are not necessarily indicative of results for a full fiscal year. The notes included herein should be read in conjunction with the notes to the consolidated financial statements included in the Company's annual report for the fifty-two weeks ended June 28, 1991.
2. Net Capital Requirements:
As a registered broker-dealer and member of the New York Stock Exchange (NYSE), the Company's wholly-owned subsidiary, S & S, is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1). S & S has elected to operate under the alternative method of the Rule, which prohibits a broker-dealer from engaging in any transactions where its "net capital" is less than 2% of its "aggregate debit balances" arising from customer transactions, as those terms are defined in the Rule. The NYSE may also impose restrictions on S & S's business if its net capital falls below 5% of aggregate debit balances.

At March 27, 1992, S & S's net capital was 35% of its aggregate debit balances and \$11,999,228 in excess of its regulatory requirement.
3. During the quarter ended March 27, 1992, and the nine months ended March 27, 1992, the Company purchased 4,000 shares of its common stock at a cost of \$47,000. The costs of the purchases were allocated to reduce common stock and additional paid in capital by \$21,320 and retained earnings by \$25,680. In addition, during the quarter ended March 27, 1992, and the nine months ended March 27, 1992, shares were issued pursuant to the exercise of stock options totalling 12,000 and 12,180 shares respectively. Net proceeds totalled \$129,190 and \$130,668 respectively.

SCOTT & STRINGFELLOW FINANCIAL, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

A substantial portion of the Company's assets are liquid, consisting mainly of cash or assets convertible into cash. The Company's largest asset is its receivable from customers, representing borrowings from the Company by customers to finance the purchase of securities on margin. The Company's primary funding sources are customer credit balances (excess funds kept by customers with S&S) and equity capital. From time to time, a portion of the Company's financing may be provided through short-term borrowings from banking institutions, although the Company had no such borrowings outstanding as of March 27, 1992.

The Company is subject to the net capital requirements of the Securities and Exchange Commission ("SEC") and the New York Stock Exchange which are designed to measure the general financial soundness and liquidity of broker-dealers. The Company has consistently operated well in excess of the minimum requirements. At March 27, 1992 the Company's net capital exceeded the minimum requirement by approximately \$12.0 million.

Management believes that funds provided by operations, combined with the Company's existing capital base, and available lines of credit under broker loan and other agreements, will meet the Company's financing needs for the foreseeable future.

Results of Operations

Overview

Gross revenues for the third quarter of fiscal 1992 increased 30.2% from the third quarter of fiscal 1991 to a record \$13,273,568. Third quarter income before income taxes increased to \$1,718,428, a 68.8% increase from the year-ago level of \$1,018,200. For the nine months ended March 27, 1992, gross revenues increased 35.8% to \$35,276,438 versus \$25,984,165. Income before income taxes for the nine month period increased 166% from \$1,508,968 to \$4,018,013.

Net income increased 61.6% to \$1,063,428 from \$658,200 in the third fiscal quarter while earnings per share rose to \$.59 from \$.37. Average common shares outstanding in the third quarter of 1992 was 1,799,666 versus 1,799,710 in the year earlier. For the nine months ended March 27, 1992, net income was \$2,533,013, up 155% from \$993,968 in the comparable period last year. Earnings per share increased in the latest nine months to \$1.41 from \$.54.

Nine Months Ended March 27, 1992 Compared to the Nine Months Ended March 28, 1991

In the nine month period ended March 27, 1992, total revenues rose 35.8% to \$35.3 million from \$26.0 million. The increase in revenues was primarily due to a strong market environment which resulted in sharply higher investment banking income and commission income. Investment banking revenue for the latest nine month period was up 417% from \$1.2 million to \$6.0 million. This sharp increase reflects primarily higher corporate and municipal underwriting activity.

Commission income was up 24.7% over last year, increasing \$3.4 million to \$17.2 million. The increase can be attributed to the generally strong market environment in the current period. Principal transaction revenues were up 13.8% over last year. Principal transaction revenues were up sharply in the equity side of the business but were modestly lower than the year earlier period in the fixed income areas.

Interest and dividends were down 6.9% from last year due to the lower interest rate environment. Short-term interest rates, including the broker call rate which is the index on which the firm's margin loans are based, have declined significantly over the past twelve months. Advisory and administrative fees were up 20.0% over last year principally due to a new transaction based administrative fee that was established April 1, 1991. Other revenues were up over last year due solely to the inclusion of rental income from a company-owned shopping center acquired as part of the acquisition of Scott & Stringfellow Realty in August of 1991.

Total operating expenses for the nine months ended March 27, 1992, increased 27.7% to \$31.3 million from \$24.5 million. Compensation and benefits increased 40.5% year-over-year which was primarily due to higher levels of revenues upon which commissions are paid, and higher levels of profits upon which bonuses and profit sharing contributions are determined. Communications expense was up 5.9% when compared to the year earlier period. The comparison to last year reflects a non-recurring credit in the year earlier period as well as generally higher prices for market data, a higher volume of quote machine equipment and data services, and modestly higher telephone costs. Interest expense was down 20.4% due to much lower interest rates more than offsetting higher customer credit balances (the Company has a limited credit interest program).

Occupancy and equipment expense was down 5.2% in the nine month period ended March 1992. This was primarily due to lower depreciation and amortization expense although the Company's efforts to renegotiate leases at lower rates contributed to the decline later in the nine month period. Brokerage, clearing and exchange fees were up 5.0% in the latest nine months due to higher volume of business offset somewhat by more efficient execution. Advertising and sales promotion expense was up 13.4% due largely to the positive market environment and increased efforts to attract funds from low yielding deposit products. Data processing expense was up 11.2% due entirely to the higher level of business.

Other operating expenses increased from \$2.1 million to \$2.5 million, a 18.1% increase. The increase was due to the establishment of various asset valuation reserves as well as higher legal expenses.

Three Months Ended March 27, 1992 Compared to Three Months Ended March 28, 1991

Revenue increased 30.2% to \$13.3 million from \$10.2 million last year. The increase in revenue was driven by a strong equity market environment and sharply higher levels of underwriting activity in the current quarter as compared to last year. Investment banking revenues which include underwriting activity were up 437% in the latest quarter to \$2.3 million from \$.4 million last year which accounted for the majority of the Company's increase in revenues.

Commission income was up 21.0% in the third quarter versus last year to \$6.7 million from \$5.5 million reflecting higher equity and mutual fund commissions. Principal transactions revenues were up a modest .6% reflecting higher equity-related activity offset by lower fixed income activity. Interest and dividends were down 9.4% due entirely to the sharp year-over-year drop in short-term interest rates.

Advisory and administrative fees were up 11.1% in the quarter due to a transaction based administrative fee that was effective April 1, 1991. Other revenues were up due to the aforementioned inclusion of rental income from Scott & Stringfellow Realty.

Operating expenses rose 25.9% in the third quarter of fiscal 1992 as compared to last year's third quarter, increasing to \$11.6 million from \$9.2 million. The increase was largely explained by a 35.8% rise in compensation and benefits which increased from \$6.2 million to \$8.4 million. Because the majority of the Company's compensation expense is related to revenue generation, the rate of increase in this expense category is largely explained by the increased revenues in the period. Higher profitability also impacted profit-related incentive compensation including the Company's contribution to its profit sharing plan.

Communications expense increased 4.4% reflected generally higher expenses for market data as well as modest increases in telephone expense. Interest expense declined 28.6% as the impact of lower interest rates offset higher interest-bearing balances in the Company's credit interest program. Occupancy and equipment expense declined 8.8% due to lower depreciation and amortization as well as lower rental expense associated with the firm's efforts to renegotiate leases. Brokerage, clearing and exchange fees were up 17.0% due to higher volumes. Most of the firm's efforts to reduce these costs were accomplished in the latter half of fiscal 1990 and the first half of fiscal 1991.

Advertising and sales promotion expense was up 37.0% due to the positive market environment and the firm's efforts to attract money from low yielding savings products. Postage, stationary and supplies increased 13.4% which reflected both the impact of the last postage increase (February 1991) and higher usage due to high business activity. Data processing expense was up 32.2%. The increase was primarily attributed to higher year end statement processing costs associated with enhanced annual reporting to clients. Other expenses increased 9.1% to \$.8 million. The increase was due an to asset valuation allowance taken against a property owned by Scott & Stringfellow Realty.

Part II. Other Information

Item b: Exhibits and Reports on 8-K

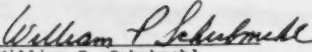
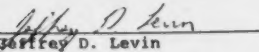
(b) Reports on Form 8-K - There were no reports on Form 8-K filed during the quarter ended March 27, 1992.

SCOTT & STRINGFELLOW FINANCIAL, INC.
AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCOTT & STRINGFELLOW FINANCIAL, INC.
Registrant

<u>Signature</u>	<u>Title</u>	<u>Date</u>
 William P. Schubmehl	President and Chief Executive Officer (Principal Executive Officer)	May 5, 1992
 Jeffrey D. Levin	Treasurer and Chief Financial Officer (Principal Financial Officer)	May 5, 1992

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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PROCESSED
62-14-V
MAY 19 1992

QUARTERLY
MAY 15 1992

FORM 10-Q

REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Microfilmed by
Q-Data Corp. - St. Petersburg,
(d) OF THE

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For the Quarter ended March 31, 1992, Commission File No. 0-15450

~~SIERRA~~ SIERRA TAHOE BANCORP ~~TAHOE~~
(Exact Name of Registrant as Specified in its Charter)

California
(State or Other Jurisdiction
No.)
of Incorporation or Reorganization)

68-0091859
(I.R.S. Employer Identification

10181 Truckee Tahoe Airport Rd., P.O. Box BD, Truckee, California 96160-4053

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (916) 582-3000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 6, 1992: Common Stock - Authorized 10,000,000 shares of no par; issued and outstanding - 2,240,352.

Total Number of PAGES 1
Exhibit Index on PAGE 1

10-Q Filing
March 31, 1992

Part I. Financial Information

Item 1. Financial Statements

Following are consolidated financial statements for Sierra Tahoe Bancorp ("the Company") for the reportable period ending March 31, 1992. These consolidated financial statements are unaudited, however, in the opinion of management, all adjustments have been made for a fair presentation of the financial condition and earnings of Sierra Tahoe Bancorp. The accompanying notes are an integral part of these consolidated financial statements.

SIERRA TAHOE BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CONDITION

(Unaudited)

March 31, 1992 and December 31, 1991
(Amounts in thousands of dollars)

<u>ASSETS</u>	<u>03/31/92</u>	<u>12/31/91</u>
Cash and Due from Banks	\$ 11,193	\$ 12,801
Federal Funds Sold	20,000	17,900
Mutual Funds (at market)	5,099	5,559
Investment Securities	12,453	8,637
Loans and Leases, Net of Reserve for Possible Loan and Lease Losses of \$2,703 in 1992 and \$2,525 in 1991 (Note 2)	140,143	142,168
Other Assets	<u>33,119</u>	<u>32,557</u>
TOTAL ASSETS	<u>\$222,007</u>	<u>\$219,622</u>
<u>LIABILITIES</u>		
Deposits	\$197,114	\$193,894
Notes Payable	100	100
Long Term Debt	1,000	1,000
Other Liabilities	<u>3,349</u>	<u>4,361</u>
TOTAL LIABILITIES	<u>201,563</u>	<u>199,355</u>
Commitments & Contingent Liabilities (Note 3)		
<u>EQUITY CAPITAL</u>		
Common Stock	8,726	8,723
Retained Earnings	11,818	11,644
Deferred Compensation - ESOP	<u>(100)</u>	<u>(100)</u>
TOTAL CAPITAL	<u>20,444</u>	<u>20,267</u>
TOTAL LIABILITIES & EQUITY CAPITAL	<u>222,007</u>	<u>\$219,622</u>

The accompanying notes are an integral part of these Consolidated Statements of Condition.

SIERRA TAHOE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

For the Three Months Ended March 31, 1992 and 1991
(Amounts in thousands of dollars except
shares and per share amounts)

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
Interest Income:		
Interest and fees on loans and leases	\$ 3,761	\$ 4,331
Interest on federal funds sold	145	73
Interest on investment securities and deposits	<u>276</u>	<u>177</u>
Total Interest Income	<u>4,182</u>	<u>4,581</u>
Less Interest Expense:		
Interest on deposits	1,996	2,307
Interest on convertible debentures	28	91
Other interest expense	<u>0</u>	<u>(37)</u>
Total Interest Expense	<u>2,024</u>	<u>2,361</u>
Net Interest Income	2,158	2,220
Provision for Possible Loan and Lease Losses	<u>245</u>	<u>90</u>
Net Interest Income After Provision for Possible Loan and Lease Losses	<u>1,913</u>	<u>2,130</u>
Other Operating Income	1,843	1,788
Other Operating Expenses	<u>3,585</u>	<u>3,030</u>
Income Before Taxes	172	888
Income Tax Benefit (Expense)	<u>2</u>	<u>(343)</u>
NET INCOME	<u>\$ 174</u>	<u>\$ 545</u>
EARNINGS PER SHARE		
Primary	\$ 0.08	\$ 0.26
Weighted Average Shares Outstanding	<u>2,263,741</u>	<u>2,090,287</u>
Fully Diluted	\$ 0.08	\$ 0.24
Weighted Average Shares Outstanding	<u>2,401,222</u>	<u>2,445,417</u>

The accompanying notes are an integral part of these Consolidated Statements of Income.

SIERRA TAHOE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

For the Three Months Ended March 31, 1992 and 1991
(Amounts in thousands of dollars)

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
Cash Flow From Operating Activities:		
Interest and fees received	\$ 4,090	\$ 4,521
Service charges and commissions received	302	256
Service income	1,636	1,385
Interest paid	(2,379)	(2,671)
Cash paid to suppliers and employees	(4,066)	(3,319)
Income taxes paid	(80)	(475)
Mortgage loan originated for sale	(4,214)	(16,598)
SBA loans originated for sale	(7,462)	(12,353)
SBA loans sold	7,896	11,797
Mortgage loans sold	6,377	15,223
Other items	<u>45</u>	<u>91</u>
Net Cash Provided By (Used in) Operating Activities	<u>2,145</u>	<u>(2,143)</u>
Cash Flow From Investing Activities:		
Proceeds from sales of mutual funds	460	498
Proceeds from maturities of investment securities	1,190	94
Purchase of investment securities	(4,976)	(693)
Loans made net of principal collections	(924)	(8,733)
Capital expenditures	(512)	(1,687)
(Decrease) increase in other assets	<u>(113)</u>	<u>9</u>
Net Cash Provided By (Used in) Investing Activities	<u>(4,875)</u>	<u>(10,512)</u>
Cash Flow From Financing Activities:		
Net increase (decrease) in demand, interest bearing and savings accounts	8,529	1,875
Net increase (decrease) in time deposits	(5,310)	12,536
Net proceeds from issuance of common stock	<u>3</u>	<u>2</u>
Net Cash Provided by Financing Activities	<u>3,222</u>	<u>14,413</u>
Net Increase (Decrease) in Cash and Cash Equivalents	492	1,758
Cash and Cash Equivalents at Start of Year	<u>30,701</u>	<u>13,996</u>
Cash and Cash Equivalents at March 31	<u>\$ 31,193</u>	<u>\$ 15,754</u>

The accompanying notes are an integral part of these Consolidated Statements of Cash Flows.

SIERRA TANOZ BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

For The Three Months Ended March 31, 1992 and 1991 (Continued)
(Amounts in thousands of dollars)

RECONCILIATION OF NET INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
Net Income:	\$ 174	\$ 545
Adjustment to Reconcile Net Income to		
Net Cash Provided:		
Depreciation and amortization	232	170
Provision for possible loan and lease losses	245	90
Provision for tax	(2)	343
Gain on sale of SBA loans	(430)	(756)
Amortization of excess servicing on SBA loans sold	485	434
Amortization of purchased mortgage servicing rights	43	43
Decrease in interest payable	(355)	(311)
Decrease in accrued expenses	(556)	(215)
Decrease in taxes payable	(80)	(475)
Decrease (increase) in loans originated for sale	2,597	(1,931)
Other items	<u>(208)</u>	<u>(80)</u>
Total Adjustments	<u>\$ 1,971</u>	<u>\$(2,688)</u>
Net Cash Provided By (Used in)		
Operating Activities	<u>\$ 2,145</u>	<u>\$(2,143)</u>

The accompanying notes are an integral part of these Consolidated Statements of Cash Flows.

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in a condensed format and, therefore, do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been reflected in the financial statements. The results of operations for the three months ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to prior period amounts to present them on a basis consistent with classifications for the three months ended March 31, 1992.

2. LOANS

As of March 31, 1992, and December 31, 1991, the Bank's loan portfolio consisted of the following (in 000's):

	March 31 1992	December 31 1991
SBA Loans		
Commercial	\$ 88,597	\$ 88,593
Real Estate - Mortgage	13,647	12,496
Real Estate - Construction	15,293	16,335
Individual and Other	14,773	16,288
Loans Held for Sale	7,912	7,112
	<u>2,624</u>	<u>3,869</u>
	<u>\$142,846</u>	<u>\$ 144,693</u>

3. COMMITMENTS & CONTINGENT LIABILITIES

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and letters of credit, which are not reflected in the financial statements. Management does not anticipate any material loss as a result of these transactions.

The Company was advised on August 16, 1991, that a lawsuit entitled William F. Astle vs. Truckee River Bank was filed on August 5, 1991, against Truckee River Bank ("TRB"), STB (including its dba Truckee River SBA Funding Company), and certain present and former officers and directors of the Company in the Superior Court of Placer County.

Plaintiff had asked for a review by the California State Supreme Court on appeal of a decision by the Superior Court of Placer County that the matter be referred to arbitration. The State Supreme Court denied the Plaintiff's petition for review on April 29, 1992.

Although the Company and TRB are unable to predict the final outcome of the above matters, Management believes the ultimate resolution will not have a material effect on the consolidated financial statements of the Company.

In addition, the Company is subject to some minor pending and threatened legal actions which arise out of the normal course of business and, in the opinion of management, the disposition of these claims currently pending will not have a material adverse effect on the Company's financial position.

Item 2

Management's discussion and analysis of financial condition and results of operations.

FINANCIAL CONDITION (March 31, 1992)

The Company experienced an increase in total assets of \$2.4 million from \$219.6 million at December 31, 1991, to \$222.0 million at March 31, 1992. This increase was primarily in the form of liquid assets including a \$2.1 million increase in federal funds sold and a \$3.8 million increase in investment securities. Additionally, other assets increased by \$0.6 million. Partially offsetting these increases was a \$1.6 million decrease in cash and due from banks, a \$.5 million decrease in mutual funds and a \$2.0 million decrease in loans and leases, net of the reserve for loan and lease losses.

The Company funded the above increases in liquid assets primarily with an increase in interest bearing transaction accounts (Money Market and NOW accounts) which increased from \$62.8 million at December 31, 1991, to \$67.8 million at March 31, 1992.

During this same period, non-interest bearing transaction accounts increased by \$2.4 million to \$38.0 million and savings accounts increased by \$1.1 million to \$9.1 million. Time certificates of deposits declined to \$82.3 million at March 31, 1992, from \$87.6 million at December 31, 1991. A significant portion of this decrease occurred in out-of-area certificates of deposits.

The major source of the Company's deposit increase was a 15% increase in total deposits at Sierra Bank of Nevada ("SBN"). Additionally, a 10% increase in total deposits was achieved at Truckee River Bank's ("TRB") Grass Valley branch and deposits generated through TRB's expanded merchant credit card services increased from \$3.4 million at December 31, 1991, to \$4.4 million at March 31, 1992.

The Company's primary sources of liquidity includes cash and due from banks, federal funds sold and mutual funds. Those items totaled \$36.3 million at March 31, 1992. Additional liquidity is provided through investment securities and loans held for sale. Investment securities at March 31, 1992, totaled \$12.4 million. Loans held for sale at this same date totaled \$2.6 million (\$1.8 million in mortgage loans and \$0.8 million in SBA loans). In addition to its liquid assets, the Company has at its disposal, unsecured lines of credit with two of its principal correspondent banks which total \$5.0 million.

During the summer of 1992, TRB will relocate its branch located at 11421 Deerfield Drive in the Crossroads Shopping Center to a new and larger facility at 11201 Donner Pass Road in the Gateway Shopping Center. This new facility will consist of approximately 4,000 square feet. TRB will lease this facility and will incur approximately \$150,000 in leasehold improvements.

RESULTS OF OPERATIONS (Three Months Ended March 31, 1992 and 1991)

The net income of the Company for the three months ended March 31, 1992, decreased by \$371 thousand from \$545 thousand at March 31, 1991, to \$174 thousand at March 31, 1992. Components of this decrease included a \$62 thousand decline in net interest income, a \$155 thousand increase in the provision for possible loan and lease losses and a \$554 increase in other operating expenses. Partially offsetting these factors was a \$55 thousand increase in other operating income and a \$345 decrease in income tax expense.

Net Interest Income

A small decline in net interest income was experienced during the first quarter of 1992 as compared to the first quarter of 1991. This decrease resulted from a decline in the yield on net interest earning assets. The yield on net interest earning assets for the quarter ending March 31, 1992, was 4.85%. This compares to 6.08% during the first quarter of 1991. The effect of the decline in yield was mostly offset by the growth of the Company's two banks.

Consistent with a decrease in the prime interest rate, the average yield on loans decreased from 13.1% during the quarter ending March 31, 1991, to 10.3% for the quarter ending March 31, 1992.

Yields and interest earned, including loan fees for the three months ended March 31, 1992 and 1991, were as follows (in thousands except percent amounts):

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
Average loans outstanding (1)	\$ 146,877	\$ 133,601
Average yields	10.3%	13.1%
Amount of interest and origination fees earned	\$ 3,761	\$ 4,331

(1) Amounts outstanding are the average of daily balances for the periods.

Excluding loan fees of \$400 thousand and \$509 thousand for the three months ending March 31, 1992 and 1991, respectively, yields on average loans outstanding were 9.2% and 11.6%. The prime rate (upon which a large portion of the Company's loan portfolio is based), averaged 9.1% for the 1991 quarter and 6.5% for the 1992 quarter. This decrease in prime is the major component of the decrease in loan yields. The decrease in loan fees during the period is primarily related to the Company's mortgage banking operations. Effective December 19, 1991, TRB was suspended as a seller of mortgage loans to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). This suspension continued until February 20, 1992, at which time Freddie Mac reinstated TRB. During the suspension, TRB was able to sell its mortgage loans through other sources; however, loan fees through those sales were less than would have been earned through Freddie Mac. Additionally, a reduction in originations during the current period was incurred as a result of the disruption management suffered from the suspension.

Rates and amounts paid on average deposits including non-interest bearing deposits for the three months ended March 31, 1992 and 1991 were as follows (in thousands except percent amounts).

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
Average deposits outstanding (1)	\$192,083	\$155,227
Average rate paid	4.2%	6.0%
Amount of interest paid or accrued	\$ 1,996	\$ 2,307

(1) Amount outstanding is the average of daily balances for the period.

The effective interest rate paid on NOW accounts, Money Market accounts and Time Certificates of Deposits during the first quarter of 1992 and 1991 were as follows:

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
NOW	3.6%	5.5%
Money market	4.2%	6.9%
Time certificates of deposit	6.0%	8.0%

Provision for Possible Loan Losses

During 1991 and continuing into 1992, the Company has experienced an increase in the percentage of 90 days past due and non-accrual loans as a percentage of total loans. This has resulted in delinquency rates which are similar to those experienced by comparable banks in the State of California. This trend is reflective of the downturn in the California economy. The increase in the provision for loan losses in 1992 reflects the increase in loan delinquencies. While the Company is unable to predict the intensity or duration of the recession, the Company expects that its existing loan loss reserve will be adequate to provide for any additional losses.

Other Operating Income

The net gain recorded on sale of SBA loans decreased from \$502 thousand for the three months ended March 31, 1991, to \$374 thousand for the three months ended March 31, 1992. This decrease primarily relates to a decrease in the volume of SBA loans sold. SBA loans sold for the three months ended March 31, 1992, totaled \$7.9 million compared to \$11.8 million during the first quarter of 1991. The Company was recently advised by one of its SBA packagers that it would discontinue referring SBA loans to the Bank. This packager provided the Bank with approximately \$8 million in SBA loans (guaranteed portion) during 1991. The loss of this packager may have an adverse impact on the amount of loans sold in 1992 and 1993.

Net service income on SBA loans (the net of the servicing income generated on sold SBA loans less the amortization of the gain recorded on the sale of these same loans and the amortization of purchased servicing) increased from \$895 thousand during the first quarter of 1991 to \$1,088 thousand for the three months ended March 31, 1992. Net service income on SBA loans can be expected to continue to increase as long as the Company continues to increase its servicing portfolio of sold SBA loans and its SBA loan prepay experience continues at historical levels.

Other Operating Expenses

The following table compares the various elements of non-interest expense as an annualized percentage of total assets for the first three months of 1992 and 1991 (in thousands except percentage amounts):

Three Months Ended March 31	Average Assets (1)	Salaries & Related Benefits (2)	Occupancy & Equipment Expenses	Other Operating Expenses
1992	\$217,805	3.7%	1.0%	1.9%
1991	\$180,702	3.6%	1.2%	1.6%

(1) Based on average daily balances.

(2) Excludes provision for payment of bonuses and contribution to ESOP plan. Including these items, percentages are 3.8% and 4.0% for 1992 and 1991, respectively.

The decrease in the percentage of salaries, bonuses (including ESOP contribution) and personnel benefits to average assets was obtained through a reduction in the accrual for bonus payments. The amount of this accrual is based on company profitability and its reduction is attributed to the decrease in the Company's profitability during the comparison period.

Major components of the increase in other operating expense are as follows (in thousands):

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>	<u>Increase</u>
Legal	\$ 162	\$ 30	\$ 132
FDIC Assessments	106	69	37
Consulting	26	8	18
Stock Expense	42	24	18
Personal Computer Maintenance and supplies	<u>20</u>	<u>5</u>	<u>15</u>
	<u>\$ 356</u>	<u>\$ 136</u>	<u>\$ 220</u>

Legal expense includes costs associated with the Company's investigation of allegations of wrongdoing in the Company's mortgage banking operations and additionally for costs incurred in response to a wrongful termination action filed by a former employee in 1991.

FDIC assessments which are levied based on deposit size increased as a result of an increase in the size of the Company as well as an increase in the rate the FDIC charges banks.

Consulting fees includes the costs related to an operational review of the Company's SBA department and consulting on various corporate matters including executive recruitment and corporation structure.

Stock expense includes fees paid to the Company's public relations counsel. This firm assists the Company in handling corporate communications and coordinates the meeting of Company executive officers and the investment community.

During 1991, the Company installed a 100 user local area network. This network was expanded in 1992. The increase in personal computer maintenance and supplies reflects the Company's expanded use of this technology.

Provision for Income Taxes

The income tax benefit achieved in 1992 resulted primarily from two factors. Included in the Company's earnings are items which are exempt from federal and in some cases state income taxes. These items include interest on certain securities of state and county municipalities and the increase in the cash surrender value of life insurance policies on certain officers and Company directors. Those sources of income represented 62% of income before tax during the period from January 1, 1992, to March 31, 1992. This compares to 12% during the same period in 1991. Additionally, because of stand alone losses incurred in prior periods, SBN has available a net operating loss carryforward. This loss carryforward was utilized to offset SBN's 1992 pre-tax income.

Part II

Item 1. Legal Proceedings

The Company was advised on August 16, 1991, that a lawsuit entitled William F. Astle vs. Truckee River Bank was filed on August 5, 1991, against TRB, STB (including its dba Truckee River SBA Funding Company), and certain present and former officers and directors of the Company and TRB in the Superior Court of Placer County.

Plaintiff alleges that his employment was permanent, terminable only for good cause and that upon commencement of employment he was forced to execute an Agreement for Employment which contained a mandator, binding arbitration clause and a provision for termination of his employment "at-will" by TRB. It is further alleged that his employment was terminated without good or legal cause and that as a result, he has suffered emotional distress. He seeks actual damages of \$170,000 and general damages in the amount of \$5,000,000.

TRB has sent a notice invoking an arbitration process pursuant to an arbitration clause in Plaintiff's Agreement for Employment. Bancorp and TRB believe that the arbitration clause and the provisions for termination of employment at will are valid. The Superior Court of Placer County ordered the matter to arbitration and on April 29, 1992, the California Supreme Court denied the Plaintiff's appeal of that decision.

In November 1991, an attorney who is believed to have represented several shareholders at the time, sent a letter to various regulatory agencies, the Federal Home Loan Mortgage Corporation (Freddie Mac), and the news media, accusing TRB and certain of its officers and directors of wrongdoing including violations of Freddie Mac rules. In December 1991, Freddie Mac suspended TRB's right to sell mortgage loans to it. Following a detailed investigation, Freddie Mac concluded that the quality and soundness of loans sold by TRB was satisfactory. Freddie Mac reinstated TRB as a seller of mortgage loans on February 20, 1992.

In addition, the Board of Directors of Bancorp formed an independent Directors Committee to investigate the allegations. This independent committee engaged outside consultants to assist in the investigation. The committee has provided its report to the Board of Directors. The Board determined that two employees of TRB's mortgage company, who have both resigned from their positions, were involved in numerous transactions in violation of Bancorp's Code of Ethics and which constituted a conflict of interest with their duties at TRB.

The Board also determined that two directors disclosed their potential interest in a project under consideration to the Board of Directors in 1986; however, the directors did not independently disclose their position to the Audit Committee as required by the Code of Ethics. Since disclosure was made to the Board and not to the Audit Committee, the Board determined the non-disclosure to the Audit Committee was an unintentional violation of the Code of Ethics.

Item 2. Change in Securities. No changes.

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. Submission of Matters to a Vote of Securities Holders. None.

Item 5. Other Information. Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

PAGE

(a) Exhibits

- | | |
|--------|---|
| 15 | (11) Computation of earnings per common share. |
| | (28) Additional Exhibits |
| 16 | 1) Contract between Meridian Capital Markets and Sierra Tahoe Bancorp dated May 1, 1992 |
| 18 | 2) Agreement between Sierra Tahoe Servicing Company and Unisys Corporation dated 11-22-91 |
| 20 | 3) Contract between Sierra Tahoe Bancorp and U.S. Elevator dated March 18, 1992 |
| 26 | 4) Contract between Truckee River Bank and U.S. Bank of California dated February 21, 1992 |
| 27, 36 | 5) Contract between Sierra Tahoe Bancorp and Federal Home Loan Mortgage Corporation dated March 31, 1992, and Attachment to Master Commitment Agreement dated April 9, 1992 |
| 47 | 6) Lease Renewal Agreement between Truckee River Bank and Wells Fargo Bank for the Bijou Branch dated April 15, 1992 |
| 48 | 7) Contract between Truckee River Bank and Mosler Inc., dated April 9, 1992 |
| 50 | 8) Contract for equipment purchase between Truckee River Bank and Unisys Corporation dated April 27, 1992 |
| 51 | 9) Agreement between Sierra Tahoe Bancorp and Unisys Corporation for the purchase of A4-FS dated 4-27-92 |
| 52 | 10) Equipment Sales Agreement between Sierra Tahoe Servicing Company and Information Technology Inc., undated. |
| 57 | 11) Equipment Sales Agreement between Sierra Tahoe Servicing Company and Information Technology Inc., dated April 27, 1992 |
| 60 | 12) Lease renewal letter between Truckee River Bank and Truckee Donner Recreation and Park District dated March 11, 1992, for the renewal of the Downtown Truckee Branch |

(b) Reports on Form 8-K

Form 8-K dated February 20, 1992 - reporting the reinstatement of STB's principal subsidiary as a seller of mortgage loans by the Federal Home Loan Mortgage Corporation ("Freddie Mac"), after being suspended on December 19, 1991.

10-Q Filing
March 31, 1992

SIGNATURES

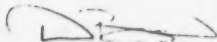
Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf of the undersigned thereunto duly authorized.

Date May 11, 1992



Jeppold T. Henley
President/Chief Executive Officer

Date May 11, 1992



David C. Broadley
Senior Vice President/Controller/
Chief Financial Officer

Sierra Tahoe Bancorp and Subsidiaries
Computation of Earnings Per Common Share

(Amounts in thousands except per share amounts)

	Three Months Ended <u>03/31/92</u>	Three Months Ended <u>03/31/91</u>
<u>Primary</u>		
Net income	<u>\$ 174</u>	<u>\$ 545</u>
Shares		
Weighted average number of common shares outstanding	2,240	2,036
Assuming exercise of options reduced by the number of shares which could have been purchased with the proceeds from exercise of such option	<u>24</u>	<u>54</u>
Weighted average number of common shares outstanding as adjusted	<u>2,264</u>	<u>2,090</u>
Net income per share	<u>\$ 0.08</u>	<u>\$ 0.26</u>
<u>Assuming full dilution</u>		
Earnings	174	\$ 545
Add after tax interest expense applicable to convertible debentures	<u>16</u>	<u>51</u>
Net income	<u>\$ 190</u>	<u>\$ 596</u>
Shares		
Weighted average number of common shares outstanding	2,240	2,036
Assuming conversion of convertible debentures	137	351
Assuming exercise of options reduced by the number of shares which could have been purchased with the proceeds from exercise of such options	<u>24</u>	<u>58</u>
Weighted average number of common shares outstanding as adjusted	<u>2,401</u>	<u>2,445</u>
Net income per share assuming all dilution	<u>\$ 0.08</u>	<u>\$ 0.24</u>

Meridian Capital Markets

10000 Wilshire Blvd., Suite 1000
Beverly Hills, CA 90210
Tel: (310) 277-1000
Fax: (310) 277-1001



April 28, 1992

Mr. David Broadley
Chief Financial Officer
Truckee River Bank
10181 Truckee Airport Road
Truckee, CA 96161

Dear Mr. Broadley:

This letter will confirm our agreement that TRUCKEE RIVER BANK ("Client") has retained Meridian Capital Markets, Inc. ("Meridian") as its exclusive marketing agent for the sale of your FHLMC servicing rights in the approximate amount of \$20 Million.

SERVICE TO BE PERFORMED BY MERIDIAN:

- 1) Develop a Servicing Offering Memorandum that is tailored to the unique characteristics of your portfolio. While highlighting its strengths, full disclosure of all relevant factors is important to insure that the deal gets closed.
- 2) Implement a Marketing Program that identifies, from our national data base, the buyer population that is most likely to be attracted to a portfolio such as this, and get their attention through a rigorous direct mail and telephone sales campaign. A hands-on sales approach with interested parties, combined with our sales force's intimacy with this portfolio, insures attainment of the highest price possible.
- 3) Consummate the Sale Transaction through providing negotiating, documentation and due diligence guidance and support to Client until the deal gets done.

COMPENSATION:

For performing these services, Meridian will be paid performance fee based on the aggregate unpaid principal balance of servicing rights sold as follows:

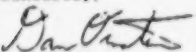
Ten (10) basis points of the aggregate principal amount of mortgage loans which are subject to such servicing rights. The fee due Meridian shall be payable upon each receipt of payment from the buyer subject to 100% of the fee being due once the client

receives at least 80% of the purchase price. Any additional sales to the same ready, willing and able buyer within 12 (twelve) months from the date of last transfer would also entitle Meridian to be compensated in the amount of ten (10) basis points of the principal amount of any future transaction(s).

Client agrees that Meridian has functioned as a broker in this transaction and, therefore, has no liability for any breach of this Agreement by the buyer. Except as specifically provided, all work will be performed by Meridian at its offices in Fort Lauderdale, Florida. If sales taxes are applicable, they will be paid by Client. This is an exclusive listing agreement for a period of thirty (30) days from the date of your acceptance. If Meridian shall be required to retain counsel for the purpose of collecting any fees due under this Agreement, Client agrees that Meridian shall be entitled to recover its reasonable attorneys' fees, costs and expenses.

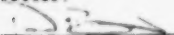
We trust that this correctly reflects the understanding between you and Meridian. Accordingly, we would appreciate your acknowledgement of this letter, returning a copy to me at this address shown.

Sincerely,


Dan Ornstein

DO/km

I hereby acknowledge and accept the conditions set forth in this letter.


Name / Title David C. Bledsoe CEO Truckee River Ranch Co
Date May 15, 1992


William H. McCaughey
Executive Vice President/t.O.O.
TRUCKEE RIVER RANCH

May 1, 1992
Date

EXHIBIT C
UNISYS CORPORATION
MA I USER AGREEMENT

In consideration of Sierra Tance Servicing Corp.

(hereinafter referred to as "User") having executed an equipment sale agreement dated, _____

with ITI hereinafter referred to as "MA I" which includes the purchase

by User of a Unisys A4-FS System and the license of its associated Unisys

Software, Unisys Corporation ("Unisys") and User agree to the following terms and conditions:

1. MANUFACTURER'S WARRANTY

Unisys grants to User as the user of the Unisys equipment the following Manufacturer's Warranty:

Unisys warrants that: (a) Unisys has title of the equipment and right to sell it; and (b) for a period of 0 from installation, the equipment delivered under this Agreement shall be free from defects in material and workmanship under normal use provided the equipment has received the normal required maintenance service. No free maintenance is included in this warranty.

Written notice and an explanation of circumstances concerning any claim the equipment has proved defective in material or workmanship shall be given promptly by User to Unisys. User's sole and exclusive remedy in the event of defect is expressly limited to the correction of the defect by adjustment, repair or replacement, at Unisys election and sole expense, except that there shall be no obligation to replace or repair items which by nature are expendable.

No representation or other affirmation of fact, including but not limited to statements regarding capacity, suitability for use, or performance of the equipment shall be or be deemed to be a warranty by Unisys for any purpose, nor give rise to any liability or obligation of Unisys whatsoever.

EXCEPT AS SPECIFICALLY PROVIDED IN THE AGREEMENT, THERE ARE NO OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

In the event of employment by User of any non-Unisys attachment, feature, or device on the equipment, or any part thereof, furnished by Unisys hereunder, which has not been approved in writing by Unisys, Unisys shall not be liable under this warranty. The approval of the use of any non-Unisys attachment, feature, or device shall not be deemed to be a representation, warranty or understanding by Unisys regarding that non-Unisys attachment, feature or device, including its performance in conjunction with the Unisys equipment.

2. MAINTENANCE

In addition to the above Manufacturer's Warranty, Unisys will have, subject to availability, maintenance services available to User at Unisys then current maintenance rates under the terms and conditions of Unisys standard License and Service Agreement, attached hereto as Attachment I. The Unisys equipment will be automatically included in this License and

Service Agreement for a period of one year, at the then current rates, unless User requests otherwise in writing.

3. DELIVERY

Unisys shall not be responsible to User for any delay in delivery of any Unisys products equipment to User.

4. DISCLAIMER

USER ACKNOWLEDGES THAT UNISYS HAS MADE NO REPRESENTATIONS OR WARRANTIES TO USER WITH RESPECT TO ANY NON-UNISYS SOFTWARE, INCLUDING ANY MA I SOFTWARE, ITS PERFORMANCE ON THE UNISYS EQUIPMENT, OR THE SERVICE TO BE PROVIDED WITH RESPECT TO SUCH NON-UNISYS SOFTWARE, AND UNISYS SHALL INCUR NO LIABILITY TO USER ARISING OUT OF THE USE OF SUCH NON-UNISYS SOFTWARE OR THE FURNISHING OF SUCH SERVICE. USER ACKNOWLEDGES THAT NO UNISYS SOFTWARE IS BEING FURNISHED TO USER BY UNISYS EXCEPT PURSUANT TO A SEPARATE WRITTEN LICENSE AGREEMENT BETWEEN USER AND UNISYS.

5. PATENT INDEMNITY

- (a) Unisys shall defend or settle any suit or proceeding brought against User based on claim that any equipment made to Unisys design constitutes an infringement of any existing United States patent, provided Unisys is notified promptly in writing and is given complete authority and information required for the defense, and Unisys shall pay all damages and costs awarded therein against User, but shall not be responsible for any cost, expense or compromise incurred or made by User without Unisys prior written consent.
- (b) If any equipment is, in Unisys opinion, likely to or does become the subject of a claim for patent infringement, Unisys may at its option and expense procure for User the right to continue using the equipment, or modify it to become non-infringing, but if Unisys is not reasonably able to modify or otherwise procure for User the right to continue using it, Unisys will remove the equipment and refund to User the amount paid in excess of a reasonable rental for past use.
- (c) Unisys shall not be liable for any infringement or claim thereof based upon use of the equipment in combination with other equipment or with software not supplied by Unisys, or with modification made by User.
- (d) The foregoing states the entire liability of Unisys to User arising from infringement.

6. UNISYS PROGRAM PRODUCTS

Any Unisys Software is provided under the terms and conditions of Unisys License and Service Agreement incorporated as a part of this Agreement and attached hereto as Attachment II. This License Agreement must be signed by User.

Notwithstanding the terms and conditions of the Unisys License and Service Agreement, User understands that MA I will provide User, on Unisys behalf, with certain of the Unisys services (revision, updates, patches) for the Unisys Software portion of the programming to be used by User.

7. LIMITATION OF LIABILITY

No representation or other affirmation of fact, including but not limited to statements regarding capacity, suitability for use or performance of the equipment shall be or be deemed to be a warranty by Unisys for any purpose, nor give rise to any liability or obligation of Unisys whatsoever.

The User agrees that the Agreement herein is the complete and exclusive statement of the agreement between Unisys and User which takes precedent over all oral and written and all other communications including proposals between the parties relating to the subject matter of this Agreement.

IN NO EVENT SHALL UNISYS BE LIABLE TO USER FOR LOSS OF PROFITS OR OTHER ECONOMIC LOSS, CONSEQUENTIAL, INCIDENTAL, INDIRECT OR SPECIAL DAMAGES OF ANY KIND OR NATURE ARISING OUT OF BREACH OF WARRANTY, DELAY IN DELIVERY, USE OF THE EQUIPMENT, INSTALLATION OR MAINTENANCE OR ANY OTHER BREACH OF CONTRACT OR REPRESENTATION.

8. GOVERNING LAW

This Agreement shall be construed according to the laws of the Commonwealth of Pennsylvania.

9. TAXES

User shall pay Unisys any tax (except tax based on net income) on or measured by the price, other charges, the equipment, program products, or services furnished by Unisys, or their use, however designated, levied or based whenever Unisys must pay and/or collect the tax according to applicable law, as interpreted by the departmental authorities of the taxing unit. It shall be User's sole obligation after payment to challenge the applicability of any tax. Any personal property tax assessable on the equipment after delivery shall be borne by User.

AGREED:

(USER)

BY:

TITLE:

DATE:

ACCEPTED:

UNISYS CORPORATION

BY:

TITLE:

DATE:

UNISYS

D. L. Wilder

Contracts Manager
Western Division

U.S. ELEVATOR

A member of the Cubic Corporation family of companies

March 23, 1992

SIERRA TAHOE BANCORP
P.O. Box BD
Truckee, CA 95734

Attention: Ms. Brady McClintock

Regarding: 10181 Truckee-Tahoe Airport, Truckee

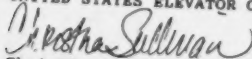
Dear Ms. McClintock:

We are enclosing an executed copy of the Elevator Maintenance Contract for the above referenced building. This copy is to be retained for your files.

We would like to take this opportunity to thank you for awarding the maintenance contract to U.S. Elevator Corporation. Please be assured you will always receive the best of service.

Sincerely,

UNITED STATES ELEVATOR CORPORATION



Christina Sullivan
Sales Engineer

CS/vvd

Enclosure

(916) 456-0141
3453 Ramona Avenue, Suite 1
Sacramento, California 95826

91-0811

UNITED STATES ELEVATOR CORPORATION

A member of the Cubic Corporation family of companies

ELEVATOR MAINTENANCE AGREEMENT

TO: SIERRA TAHOE BANCORP
P.O. Box BD
Truckee, CA 95734
(hereinafter called you or Purchaser)

UNITED STATES ELEVATOR CORPORATION
(hereinafter called us or the Company)
through our office located at:

3453 Ramona Avenue, Suite 1
Sacramento, CA 95826

Agrees to service the elevator equipment described herein on the following terms and conditions, in
Purchaser's building located at:

TRUCKEE RIVER BANK
10181 Truckee-Tahoe Airport
Truckee, CA 95734

EQUIPMENT DESCRIPTION

Type	Quantity	Manufacturer	Elev ID	Landings/Openings
Hydraulic/ Passenger	2	USEC	101098/99	2/2 IL

PURCHASER'S RESPONSIBILITIES

- Possession or control of the equipment shall remain exclusively yours as owner, lessee, possessor or custodian.
- Your responsibility includes, but is not limited to, instructing or warning passengers in the proper use of the equipment, taking the equipment out of service when it becomes unsafe or operates in a manner that might cause injury to a user, promptly reporting to us any accidents or any condition which may need attention and maintaining surveillance of the equipment for such purposes.
- You will provide us unrestricted access to the equipment, and a safe workplace for our employees.
- You will keep the pits and machine rooms clear and free of water and trash and not permit them to be used for storage; and provide supply power of proper voltage and free of aberrations.
- You agree that you will not permit others to make changes, adjustments, tests, additions, repairs or replacements to the equipment.

COMPANY'S SCOPE OF WORK

Under this contract the Company will maintain the elevator equipment herein described on the following terms and conditions:

The Company will use skilled, trained personnel, supervised and directly employed by us and use reasonable care to see that the equipment is maintained as set forth herein.

The Company will regularly and systematically examine, adjust, lubricate, and if conditions warrant, unless specifically excluded under the exclusions paragraph, repair or replace the:

Machine: including worm, gear, thrust bearings, drive sheave, sheave shaft bearings, brake coil, brake linings and components.

Pump Unit: including pump, V-belts, strainers, silencers, springs and gaskets.

Motor: including motor windings, bearings, rotating element, commutators, brushes and brush holders.

Motor Generator: including windings, bearings, rotating element, commutators, brushes and brush holders.

Jack Unit: including plunger, guide bearing, packing and packing gland.

Controller: including relays, resistors, contacts, coils, leads, transformers, fuses, timing devices and solid state components.

Valves: including relief valve, pilot, lowering, leveling and checking valves; or any of the parts thereof.

Dispatching Equipment: including relays, resistors, contacts, coils, leads, fuses, transformers, timing devices and solid state components.

Selector: including electrical or mechanical drive components, cams, contacts, relays, resistors, leads, transformers and solid state components.

Governor: including sheave, bearings, shafts, contacts and governor jaws.

Car: including power door operator, door protective devices, car door hangers, car door contact, loading weighing equipment, car safety devices, car guide shoes, and subflooring.

Hoistway: including deflector sheave, secondary sheaves, buffers, governor tension assemblies, guide rails, limit switches, compensating sheave assemblies, compensating chain or cables, traveling cables, hoistway and machine room wiring, hoistway door interlocks, hoistway door hangers and gibbs and auxiliary closer.

Accessory Equipment: including all accessory elevator equipment installed prior to commencement of this contract unless excepted in the exclusions paragraph.

Fixtures: car and hall button stations, master indicator control panels, all signal fixtures including contacts, buttons, key switches and locks. Lamps and sockets will be replaced during regular examinations only, or will otherwise be subject to separate billing.

Furnish lubricants: compounded to specifications and selected to give the best performance.

Furnish and maintain: hydraulic fluid at proper operating level.

Wire ropes: will be renewed as often as necessary to maintain an adequate factor of safety and equalize the tension on all hoisting ropes.

PRO-RATIONS:

The items listed on the schedule below show considerable wear and will have to be replaced in the near future. To provide you with the maximum service from these items, the Company is accepting them in their present condition with the understanding that you agree to pay, in addition to the base amount of this proposal, an extra price at the time the items listed are first replaced. The charge for this replacement will be determined by pro-rating the total cost of replacing the individual items. You are to pay for that portion of the life of the items used prior to the date of this contract and the Company agrees to pay for that portion used during the time of this contract.

SCHD II F OF PARTS TO BE PRO-RATED



HOURS OF SERVICE

All work will be performed during the regular working hours of regular working days of the escalator trade, unless otherwise specified below.

The Company will provide emergency minor adjustment call back service:

Elevator Maintenance (EM)

- ☐ During regular working hours of the regular working days only. Callbacks outside these hours will be billed at our regular rates in addition to the contract base price.

Elevator Maintenance Time Differential (EMTD)

- ☒ On overtime callbacks, we will absorb the worked hours at straight time rates and you will be charged for the overtime premium portion only, at our regular billing rates.

Elevator Maintenance with Callbacks (EMC)

- ☐ On a 24-hour, 7 days a week basis, and we will absorb the premium expense.

Tests: The Company shall ☐ shall not ☒ as a part of this agreement be required to make tests as set forth in the edition of American National Standard Safety Code for Elevators and Escalators (ANSI, 17.1) in effect at the time this agreement is entered into.

SPECIAL PROVISIONS

This agreement, after acceptance by the parties named herein, is agreed as being entered into, and service shall commence on the fourth day of January 1992 and continue thereafter until terminated as provided in the next sentence. Either party may terminate this agreement at the end of the first five years after the service commencement date in this paragraph, ~~or at the end of any subsequent five-year term by giving the other party written notice not less than ninety days prior to the end of any five-year term.~~

See Exhibit "A"

EXCLUSIONS AND CONDITIONS

Are described on the reverse and incorporated as part of this agreement.

Items on this exhibit are an integral part of this Contract for Maintenance & Inspection Schedule.

CONTRACT PAYMENTS

Are due monthly in advance at monthly increments of

Three hundred thirty-eight and 00/100ths dollars

(\$ 338.00 per month.

*Price to be \$223.00/mo. until October 10, 1992

PRICE ADJUSTMENTS

The agreement price shall be increased or decreased as soon as practicable after an increase or decrease in labor rates by the percentage of increase or decrease in the then current straight-time hourly rate for Elevator Constructor Mechanics in the locality where the equipment is maintained.

The straight-time hourly rate for Elevator Constructor Mechanics shall be the actual hourly rate paid to such mechanics, plus payroll taxes, insurance and fringe benefits which include, but are not limited to, travel, per diem, pensions, vacations and paid holidays.

ACCEPTANCE

This proposal, when accepted by you below and approved by a Company officer, shall constitute the contract between us, and all prior representations or agreements not incorporated herein are superseded.

This Agreement, if not accepted, is subject to change without notice sixty (60) days from the date submitted.

Accepted TRUCKEE RIVER BANK
Legal Name of Purchaser

Proposed for:
UNITED STATES ELEVATOR CORP.

Address 1081 Truckee Talise Apartments

By Christina Sullivan
Date Submitted 10/25/91

By Wm H M. Boye
Owner or Authorized Agent

Accepted for:
UNITED STATES ELEVATOR CORP.

Title EVP/ICCO

By E. Kelly
Corporate Officer

Date 1-30-92

Title V.P.

Date 3-18-92

TERMS AND CONDITIONS

The Purchaser will indemnify, defend and insure Company as an additional insured on Purchaser's policies against all claims, demands, and liability for damages for death or bodily injury to persons or for injury to property arising out of or connected with the use of the elevator. However, this indemnity will not extend to any loss, damage or expense arising out of the sole negligence or willful misconduct of Company or its employees while at the Purchaser's site.

At any time the Company's serviceman is servicing the equipment, the Company is asserting possession and control only over the specific component being serviced at any given moment, and possession and control of the remainder of the equipment shall remain with the Purchaser. The Company shall not be responsible for any situation that may occur that cannot be revealed by ordinary visual inspections while Company is at Purchaser's site. In the event the Purchaser fails to give the Company immediate verbal and written notice within thirty (30) days of any accident, a situation or change affecting the equipment, fails to immediately discontinue use of the equipment known or suspected to be faulty or fails to maintain surveillance of the equipment in order to detect faulty operation, then Purchaser will be held responsible for any and all damages, injuries and liability as a result of said failure. This notice requirement is to be strictly construed and any failure to comply with this requirement will serve to hold the Purchaser and its insurer liable for any and all damages or injuries which result therefrom. In the event Company gives Purchaser notice of or Purchaser fails to have any unsafe conditions corrected, Company shall have no further obligation to perform under this contract and such failure to correct shall be deemed a material breach of this contract by Purchaser.

The Company shall not be held responsible or liable for any loss, damage, detention, or delay caused by accidents, strikes, lockouts, fire, floods, acts of civil or military authorities, or by insurrection or riot, or by any other cause which is beyond its reasonable control. In no event shall the Company be liable vicariously or for consequential damages or for disposal of hazardous waste materials. No work, service or liability on the part of the Company other than that specifically mentioned herein is intended. The Company shall not be liable for any environmental/ecological reporting, testing, cleaning, or rehabilitation dictated by any agency or party for any reason. If such action is required, the Company shall be fully compensated by the Purchaser.

In the event of sale, lease or other transfer of the elevators or other equipment described herein, or the premises in which they are located, or a change in the paying party, the Purchaser agrees to see that such transferee or alternate payment party is made aware of this contract and assumes and agrees to be bound by the terms hereof for the balance of the contract term and subject to termination as herein provided, or otherwise be liable for the full unpaid balance due for the unexpired term of the contract, provided however, that in any such case the Company may in its sole discretion terminate the above contract with any such successor at any time upon thirty (30) days advance notice in writing. The contract price is a unit amount for the entire contract period subject to interest and escalation adjustments. Monthly payments are only for Purchaser's convenience.

In the event of breach of this contract including the failure by Purchaser to pay the price when due, the Company may at its option declare all sums due to become due under this contract for the unexpired term of the contract immediately due and payable, and Purchaser agrees that the Company is discharged from any further obligations to perform. Any monies due shall bear interest at the maximum rate allowed by law. Interest when not paid shall compound where permitted by law. In the event legal or other action is instituted by the Company to collect any money due it under this contract or damages for its breach, it shall be entitled to recover all third party collection expenses, attorney's fees and costs incurred by it with interest in conjunction with such action whether or not a lawsuit is filed or concluded. In the event of an actual or alleged default by Company, Purchaser shall give Company a ten-day written notice and if Company fails to cure or commence action to cure within such period, Purchaser may, upon an additional three-day written notice, terminate this agreement.

In the event the Purchaser's acceptance is in the form of a purchase order or other kind of document, the provisions, terms and conditions of this proposal shall govern in the event of conflict.

EXCLUSIONS

The following items are not included in this contract: maintaining, refinishing, repairing or replacement of any components of the elevator cab, its floor, floor covering, sills, handrails, ceiling, etc.; the hoistway enclosures, doors, frames and sills or other portions of the equipment subject to public abuse; hydraulic cylinders, casings and concealed hydraulic piping; replacement of any light bulbs, fluorescent tubes and associated fixtures used for cab illumination; batteries for emergency lighting; any power units or components installed or connected for emergency standby power use; main line power switches, breakers and feeders to control equipment; obsolete equipment which is no longer regularly available through normal supply sources. If the original equipment was not manufactured or installed by United States Elevator Corporation, or was provided by Purchaser (such as, but not limited to, alarm, security, intercom or other systems), any problems with design, material or workmanship are specifically excluded from coverage under this agreement. If the elevators are equipped with a fireman's control feature, the Company will not be responsible for the maintenance or functioning of the smoke and/or heat detectors/sensors.

Repairs or renewals necessitated by ordinary wear and tear only shall apply to this contract, and the Company shall not be required to make adjustments, repairs or renewals necessitated by reason of negligence on the part of others, misuse of the equipment, environmental conditions including leakage, or by reason of any other cause beyond the Company's control. In the event tests are required by contract, Purchaser understands that the tests impose upon the equipment greater strains than those arising from normal operation. Therefore, it is agreed that in making such tests, the Company shall not be liable for leakage, loss, damage, injury or destruction of persons or property, except those of the Company, because of the action or failure of any of these devices. If repairs are necessary before or after such tests to meet code or performance requirements, such work shall be considered as an extra to this contract and payable as a separate order. The Company is not obligated to install new attachments on the elevator, make new or different tests or do other things not required by governmental regulations in effect on the date this contract was first entered into whether or not recommended or directed by insurance companies or by governmental authorities, nor make any replacements with parts of a different design unless agreed to separately in writing.

PROTECTIVE MAINTENANCE LUBRICATION AND INSPECTION SCHEDULE

2015-01-01 10:00 AM

U.S.
ELEVATOR

ELEVATOR NO. _____
JOB NUMBER _____

Unit "A"

JOB NO. _____

FREQ	ITEM	UNIT	MONTHS											
			1	2	3	4	5	6	7	8	9	10	11	12
MONTHLY	M.G. SET SELECT BEARING OIL	CL												
	WORM BEARINGS TO LEVEL GEAR & GEARLESS	CL												
	WORM BEARINGS TO LEVEL GEAR & GEARLESS	CL												
	GENERAL OIL LUBRICATION OF ELEVATION	CL												
	CONTROLLER & SELECTORS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
QUARTERLY	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
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	WORM & GEAR & MOUNTING BEARINGS	CL												
ANNUALLY	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
	WORM & GEAR & MOUNTING BEARINGS	CL												
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	WORM & GEAR & MOUNTING BEARINGS	CL												

CA - CHECK & ADJUST
CL - CLEAN & LUBRICATE

CA - CHECK & CLEAN
CL - ADJUST

CA - CHECK & CLEAN
CL - ADJUST

20

JCM NO.

EXAMINER SHOULD INQUIRE THAT WORK IS DO

**CORPORATE RESOLUTION TO OBTAIN CREDIT, GRANT SECURITY,
GUARANTEE, SUBORDINATE, OR ACT AS GENERAL PARTNER/JOINT VENTURER**

RECITALS

A Truckee River Bank, a corporation duly organized and existing under the laws of California (the "Corporation") desires to obtain present or future credit from, grant security to, or give guarantees or subordinations to, The Bank of California, N.A. ("Bank"); and

B. The Corporation desires that certain officer(s) be authorized, from time to time, to act on its behalf in obtaining such credit from, granting security to, or giving guarantees or subordinations to, Bank;

NOW, THEREFORE, IT IS RESOLVED THAT:

1. **Authorization.** Any Two of the following officers of this Corporation is authorized and directed, in the name and on behalf of the Corporation, from time to time, with or without security, to obtain credit and other financial accommodations from Bank, or to give guarantees or subordinations to Bank, upon such terms as any such officer shall approve:
Thomas J. Faragher, William H. McGaughey, David P. McLean, Leslie S. Williams

2. **Scope of Authority.** Without limiting the generality of the authority granted, each officer designated in paragraph 1 above is authorized, from time to time, in the name and on behalf of the Corporation, to:

a) Incur indebtedness to Bank. The word "indebtedness" as used herein means all debts, obligations and liabilities including without limitation obligations and liabilities under guarantees or subordinations, currently existing or now or hereafter made, incurred or created, whether voluntary or involuntary and however arising or evidenced, whether direct or acquired by assignment or succession, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether liability is individual or joint with others, all renewals, extensions and modifications thereof, and all attorneys' fees and costs incurred in connection with the negotiation, preparation, workout, collection and enforcement thereof;

b) Execute, deliver and endorse with respect to indebtedness to Bank, promissory notes, loan agreements, drafts, guarantees, subordinations, applications and agreements for letters of credit, acceptance agreements, foreign exchange documentation, indemnities, waivers, purchase agreements and other financial undertakings, leases and other documents and agreements in connection therewith, and all renewals, extensions or modifications thereof;

c) Grant security interests in, pledge, assign, transfer, endorse, mortgage or hypothecate, and execute security or pledge agreements, financing statements and other security interest perfection documentation, mortgages and deeds of trust on, and give trust receipts for, any or all property of the Corporation as may be agreed upon by any officer as security for any or all indebtedness of the Corporation or any other individual or entity ("Person"), and grant and execute renewals, extensions or modifications thereof;

d) Sell to, or discount or rediscount with, Bank all negotiable instruments, including without limitation promissory notes, commercial paper, drafts, accounts, acceptances, leases, chattel paper, contracts, documents, instruments or evidences of debt at any time owned, held or drawn by the Corporation, and draw, endorse or transfer any of such instruments or documents on behalf of the Corporation, guarantee payment or repurchase thereof, and execute and deliver to Bank all documents and agreements in connection therewith, and all renewals, extensions or modifications thereof; and

e) Direct the disposition of the proceeds of any credit extended by Bank, and deliver to Bank and accept from Bank delivery of any property of the Corporation at any time held by Bank;

3. **Writings.** Any instruments, documents, agreements or other writings executed under or pursuant to these resolutions (collectively, the "Resolution") may be in such form and contain such terms and conditions as may be required by Bank in its sole discretion, and execution thereof by any officer authorized under the Resolution shall be conclusive evidence of such officer's and the Corporation's approval of the terms and conditions thereof;

4. **Certification.** The Secretary or any Assistant Secretary of the Corporation is hereby authorized and directed from time to time to certify to Bank a copy of the Resolution, the names and specimen signatures of the officers designated in paragraph 1 above, and any modification thereof;

5. **Retraction/Amendment.** The authority given under the Resolution shall be retroactive and any and all acts so authorized that are performed prior to the Resolution's formal adoption are hereby approved and ratified. In the event two or more resolutions of this Corporation are concurrently in effect, the provisions of each shall be cumulative, unless the later (est) shall specifically provide otherwise. The authority given hereby shall remain in full force and effect, and Bank is authorized and requested to rely and act thereon, until Bank shall have received at its 400 California Street, San Francisco Office a certified copy of a further Resolution of the Corporation's Board of Directors amending, rescinding or revoking the Resolution;

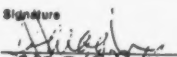
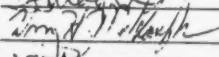
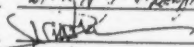
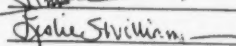
6. **Requests for Credit.** Credit may be requested by the Corporation from Bank in writing, by telephone, or by other telecommunication method acceptable to Bank. The Corporation recognizes and agrees that Bank cannot effectively determine whether a specific request purportedly made by or on behalf of the Corporation is actually authorized or authentic. As it is in the Corporation's best interest that Bank extend credit in response to these forms of request, the Corporation assumes all risks regarding the validity, authenticity and due authorization of any request purporting to be made by or on behalf of the Corporation. The Corporation is hereby authorized and directed to repay any credit that is extended by Bank pursuant to any request which Bank in good faith believes to be authorized, or when the proceeds of any credit are deposited to the account of the Corporation with Bank, regardless of whether any individual or entity other than the Corporation may have authority to draw against such account;

7. **Corporation As General Partner/Joint Venturer.** Nothing in its articles of incorporation or by-laws limits or prohibits the Corporation from acting as a general or limited partner of a partnership or joint venture of a joint venture. Any officer designated in paragraph 1 of the Resolution is authorized, on behalf of the Corporation, in its role as a general or limited partner or a joint venture, to execute, deliver and endorse all certificates, authorizations and agreements in evidence the Corporation's role in and responsibilities to and for such partnership or joint venture so that Bank may rely thereon, and not to evidence such partnerships or joint ventures' obligations and liabilities to Bank.

CERTIFICATE OF SECRETARY OF THE CORPORATION

I hereby certify to The Bank of California, N.A., ("Bank") that the attached corporate resolution is a true copy of the Resolution defined therein duly adopted _____, 19____ by the Board of Directors of Truckee River Bank a corporation duly organized and existing under the laws of California (the "Corporation") and duly entered in the records of the Corporation, and that the Resolution is in conformity with applicable law and regulation, the Articles of Incorporation and the By-Laws of the Corporation and is now in full force and effect.

I also certify that the following are the names and genuine specimen signatures of the officers of this Corporation authorized in paragraph 1 of the Resolution:

Corporate Title	Name	Signature
☒ President/C.E.O.	<u>THOMAS J. PARAGHER</u>	
☒ Executive Vice President/C.O.O.	<u>WILLIAM H. MCGAUGHEY</u>	
☒ Executive Vice President	<u>DAVID P. McLEAN</u>	
☒ Vice President	<u>LESLIE S. WILLIAMS</u>	

I agree to notify Bank in writing of any change in any aspect of the Resolution or of any individual holding any office set forth in this certificate immediately upon the occurrence of any such change, and to provide Bank with a copy of the modified resolution(s) and the genuine specimen signature of any such new officer.

The authority provided for in the Resolution shall remain in full force and effect, and Bank is authorized and requested to rely and act thereon until Bank shall receive at its 400 California St., San Francisco Office either a certified copy of a further resolution of this Corporation's Board of Directors amending the Resolution, or a certification of a change in the authorized officer(s).

Dated: February 21, 19 92 ☒ Patricia Callahan

Secretary of _____

Truckee River Bank

SEAL

(if no seal,

so state)

President* of _____

*If it is Bank policy that when the Secretary is among those authorized, the President should also sign the Certificate.

file

Sierra Tahoe Bancorp

April 6, 1992

Federal Home Loan Mortgage Corporation
15303 Ventura Boulevard, Suite 200
Sherman Oaks, CA 91403

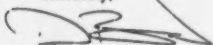
Attention: Andy Fenstermacher
Marketing Operations

Enclosed is a signed original of the Master Agreement as requested in your letter dated March 31, 1992.

If you have any questions, please call me at (916) 582-3820.

Many thanks.

Sincerely,



David C. Broadley
Senior Vice President/
Chief Financial Officer

DCB:akb

Enclosures

Western Regional Office
(located in the Imperial Bank Building)
15303 Ventura Blvd., Suite 200
Sherman Oaks, California 91403
818 905.0070

Mail to:
P.O. Box 9114
Van Nuys, California 91409-9114

**Freddie
Mac**

March 31, 1992

David Bradley
Chief Financial Officer
Senior Vice President
Truckee River Bank
10015 Palisades Drive
Truckee, CA 95734

RE: Master Commitment Contract #M92033186 (Mandatory)
Seller/Service #932700

Dear Mr. Bradley:

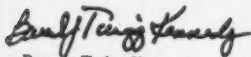
Enclosed are one original and one duplicate copy of the above referenced Master Commitment Contract together with any applicable attachments. The Conversion Confirmation form and loan numbers will be forwarded under separate cover.

In order to accept and confirm the terms of Freddie Mac's offer, you must sign the enclosed original Master Commitment Contract in the space provided and return it to:

Federal Home Loan Mortgage Corporation
15303 Ventura Boulevard, Suite 200
Sherman Oaks, CA 91403
Attn: Andy Fenstermacher, Marketing Operations

If you have any questions, please contact Butch Story, Manager of Marketing Operations at (818) 905-3424.

Sincerely,



Beverly Twigg Kennedy
Vice President of Marketing and Sales

Enclosures

MASTER COMMITMENT CONTRACT

RE: Master Commitment Contract #M92033186 (Mandatory)
Seller/Service #932700

This Master Commitment Contract, dated as of March 31, 1992 (the "Master Commitment"), is by and between Federal Home Loan Mortgage Corporation ("Freddie Mac") and Truckee River Bank, Seller/Service #932700 ("Seller").

This Master Commitment sets forth the terms and conditions of Seller's sale to Freddie Mac of the mortgages described in Section I.5 below titled "Mortgage Products" (the "Mortgages").

Terms used in this Master Commitment and not otherwise defined herein shall have the meanings ascribed to them in the Freddie Mac Sellers' & Services' Guide (the "Guide"), as amended and supplemented by Freddie Mac Sellers' and Services' Bulletins published prior to the date of this Master Commitment. References to Freddie Mac's mortgage products and delivery programs shall have the meanings ascribed to them in the Guide.

In connection with the sale and servicing of Mortgages and, if applicable, the purchase of PCs contemplated by this Master Commitment, Seller shall comply with all requirements of the Purchase Documents, which are modified and supplemented by and incorporated into this Master Commitment.

Section I. General Terms

1. Contract Commitment Amount. The Contract Commitment Amount shall be \$10 million.
2. Required Delivery Date. The Required Delivery Date shall be December 31, 1992.
3. Delivery Program. The Mortgages shall be sold under either the Guarantor Program, the MultiLender Swap Program or the Cash Program (the "Delivery Programs").
4. Mandatory Delivery. Delivery under the terms of this Master Commitment is Mandatory. Until the earlier of (i) the fulfillment of the Contract Commitment Amount or (ii) the Required Delivery Date, all Mortgages sold to Freddie Mac shall be sold pursuant to, and credited toward the Contract Commitment Amount of, this Master Commitment.
5. Mortgage Products. The mortgage products eligible for sale, as permitted by the parameters of the applicable Delivery Program and the terms of this Master Commitment, are as follows:
 - 15-year, 1-4 family, first lien, fixed-rate, fully amortizing conventional mortgages ("15-year fixed-rate Mortgages")
 - 30-year, 1-4 family, first lien, fixed-rate, fully amortizing conventional mortgages ("30-year fixed-rate Mortgages"; collectively with 15-year fixed-rate Mortgages, "fixed-rate Mortgages")

- 5-year Balloon/Reset Mortgages
 - 7-year Balloon/Reset Mortgages (collectively with 5-year Balloon/Reset Mortgages, "Balloon/Reset Mortgages")
 - Adjustable rate mortgages ("ARMs"), provided that for all 2% 1-year ARMs, 2% 1-year COF ARMs and 1% semiannual COF ARMs that have an Origination Date after March 15, 1992, Borrower shall be qualified as follows:
 - (i) for such Mortgages with total loan-to-value ratios less than or equal to 75 percent, Borrower is qualified at the greater of 7 percent or the initial gross coupon rate; and
 - (ii) for such Mortgages with total loan-to-value ratios greater than 75 percent, the Borrower is qualified at the greater of 7 percent or the initial gross coupon rate plus the maximum second year adjustment (initial note rate plus two percent).
6. **Freddie Mac's Interest in Mortgages.** Seller shall sell whole Mortgages and/or participation interest in Mortgages as permitted by the parameters of the applicable Delivery Program.
7. **Without Recourse.** The Mortgages shall be sold without recourse within the meaning of Section 5306(b) of the Guide.
8. **Purchase Tolerances.** Notwithstanding the purchase tolerance set forth in Section 5304 of the Guide, purchase by Freddie Mac of at least 90 percent of the Contract Commitment Amount shall constitute fulfillment by Seller of the purchase requirements under this Master Commitment. In addition, Freddie Mac shall purchase Mortgages otherwise eligible for purchase with an aggregate unpaid principal balance not to exceed 110 percent of the Contract Commitment Amount.
9. **Pair-off Fees.** The pair-off fee shall be 12.5 basis points (0.125 percent) of the pair-off amount, as defined in Section 0906 of the Guide.
10. **Seasoning of Mortgages.** Each Mortgage purchased pursuant to this Master Commitment shall have an Origination Date of not more than 12 months prior to the Delivery Date with the exception of Converted Mortgages, as defined in Chapter 56 of the Guide, each of which shall have been converted to a fixed rate of interest not more than 12 months prior to the Delivery Date.

Section II. Minimum Servicing Spread

1. **Cash Program-Gold Cash.** With respect to Mortgages purchased under the Cash Program-Gold Cash, the Minimum Servicing Spread shall be 25 basis points (.250 percent).
2. **Guarantor Program-Gold PCs.** With respect to Mortgages purchased under the Guarantor Program-Gold PCs, the Minimum Servicing Spread shall be 25 basis points (.250 percent).

Section III. Required Spreads

1. Guarantor Program-Original PCs. For ARMs, the Required Spread shall be 25.0 basis points (.250 percent).
2. Guarantor Program-Gold PCs. The Required Spread for Mortgages delivered under the Guarantor Program-Gold PCs shall be as follows:
 - For 15-year fixed-rate Mortgages, the Required Spread shall be 26.5 basis points (.265 percent).
 - For 30-year fixed-rate Mortgages, the Required Spread shall be 27.5 basis points (.275 percent).
 - For 5-year Balloon/Reset Mortgages, the Required Spread shall be as follows:
 - (i) 36.5 basis points (.365 percent) for Mortgages originated pursuant to the Attachment titled "Special Underwriting Provisions" Paragraph 2 relating to Balloon/Reset Mortgages subject to buydowns (such Mortgages are referenced in Exhibit I attached hereto as "Risk Category 1").
 - (ii) 31.5 basis points (.315 percent) for all other 5-year Balloon/Reset Mortgages (such Mortgages are referenced in Exhibit I as "Risk Category 2").

For all 5-year Balloon/Reset Guarantor Program Conversions the Seller shall be required to submit a completed Guarantor Conversion Worksheet, attached as Exhibit I, to Freddie Mac's Western Regional Office, Attention: Marketing Contract Administrator, prior to Seller's notification of each Guarantor Program Conversion. In the event Exhibit I reflects that Mortgages delivered pursuant to paragraphs (i) and (ii) are to be combined in the same pool, a weighted average Required Spread shall be rounded up to the nearest .5 basis point (.005 percent). Freddie Mac's determination of such Required Spread shall be conclusive.
 - For 7-year Balloon/Reset Mortgages, the Required Spread shall be as follows:
 - (i) 34.5 basis points (.345 percent) for Mortgages originated pursuant to the Attachment titled "Special Underwriting Provisions" Paragraph 2 relating to Balloon/Reset Mortgages subject to buydowns (such Mortgages are referenced in Exhibit I attached hereto as "Risk Category 3").
 - (ii) 29.5 basis points (.295 percent) for all other 7-year Balloon/Reset Mortgages (such Mortgages are referenced in Exhibit I as "Risk Category 4").

For all 7-year Balloon/Reset Guarantor Program Conversions the Seller shall be required to submit a completed Guarantor Conversion Worksheet, attached as Exhibit I, to Freddie Mac's Western Regional Office, Attention: Marketing Contract Administrator, prior to Seller's notification of each Guarantor Program Conversion. In the event Exhibit I reflects that Mortgages delivered pursuant to paragraphs (i) and (ii) are to be combined in the same pool, a weighted average Required Spread shall be rounded up to the nearest .5 basis point (.005 percent). Freddie Mac's determination of such Required Spread shall be conclusive.

3. Other Mortgage Types. The Required Spread for Mortgages delivered pursuant to this Master Commitment for which the Required Spread has not been set forth in the preceding sections shall be provided to the Seller upon Seller's notification of a Master Commitment Conversion ("Conversion").

Section IV. Remittance Cycles, Buyup and Buydown Features

1. Guarantor Program-Original PC. For sales under the Guarantor Program-Original PCs, Seller may elect ARC for any Conversion.
2. Cash Program-Gold Cash. For sales under the Cash Program-Gold Cash, Seller may elect either the First Tuesday remittance cycle or Gold remittance cycle for any Cash Conversion.
3. Gold Guarantor Program. For sales under the Guarantor Program-Gold PCs, Seller may elect either the First Tuesday remittance cycle or Super ARC for any Conversion. If Seller elects to use the Super ARC program, remittances shall be made on the calendar day of the month specified by Seller when Seller enters into its first Conversion using the Super ARC program; such remittance date may be any calendar day from the first to the 15th day of the month. The remittance date selected by Seller in its first Conversion using the Super ARC program shall be the remittance date applied to all Mortgages delivered pursuant to this Master Commitment under Conversions using the Super ARC program. Seller shall type on the first Conversion Confirmation using the Super ARC program, the following: "Seller has designated the ____ calendar day of the month as its Super ARC remittance date for all Mortgages delivered under this Conversion and all subsequent Conversions under this Master Commitment that use the Super ARC program".
4. Buyup and Buydown Features. Seller may elect the Buyup or Buydown option at the time of any Conversion. Seller may elect the Buyup option, as available under the terms of the applicable Delivery Program, at the time of any Cash Conversion.

Section V. Special Underwriting Provisions

The special underwriting provisions applicable to Mortgages purchased pursuant to this Master Commitment are set forth at the attachment titled "Special Underwriting Provisions".

Section VI. Special Mortgage Products

Pursuant to this Master Commitment, certain mortgage products, which under the Guide either are not mortgage products eligible for purchase or are eligible for purchase only on a negotiated basis, shall be eligible for purchase. The provisions pertaining to such mortgage products are set forth at the following attachments:

1. Investment Property Mortgages. The criteria applicable to Mortgages secured by investment properties are contained in the attachment titled "Provisions Relating to Mortgages Secured By Investment Properties".

Section VII. Allocation of Mortgage Purchases

Notwithstanding the requirements of Section 5204 of the Guide, the unpaid principal balance of mortgages purchased pursuant to conversions under the Guarantor Program or MultiLender Swap Program and Cash Program Purchase Contracts under the Cash Program (collectively, "conversions") shall be credited to the contract commitment amount set forth in any master commitment between Freddie Mac and Seller with respect to which the contract commitment amount plus the purchase tolerance has not been filled and the required delivery date has not passed (the "Prior Master Commitment"), until the earlier of (a) the date on which Seller has converted (with respect to Cash Program Purchase Contracts) and Freddie Mac has purchased (with respect to conversions under the Guarantor Program or the MultiLender Swap Program) mortgages having an aggregate unpaid principal balance equal to the contract commitment amount plus the purchase tolerance set forth in the Prior Master Commitment or (b) the required delivery date stated in the Prior Master Commitment.

Thereafter, Seller shall specify on the Conversion Confirmation or when placing the cash offer that the Mortgages purchased shall be credited to this Master Commitment.

In the event that, before (i) the date on which Seller has filled the contract commitment amount plus the purchase tolerance specified in the Prior Master Commitment, and (ii) the required delivery date specified in the Prior Master Commitment, Seller elects to take conversions to be credited to this Master Commitment, Seller shall be deemed to have waived any right to take any additional conversions to sell mortgages under the Prior Master Commitment. In the event Seller's right to take conversions to sell mortgages under the Prior Master Commitment is so terminated, Seller, in addition to being liable for any pair-off fees pursuant to Section 5206 of the Guide, shall be subject to any remedies for nondelivery if and to the extent Seller's deliveries under the Prior Master Commitment exceed the dollar and/or percentage limitations on any product or any special underwriting provision set forth in the Prior Master Commitment.

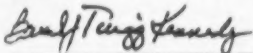
Section VIII. Concluding Provisions

The original of this Master Commitment shall be executed by Seller and returned to Freddie Mac by April 14, 1992.

IN WITNESS WHEREOF, Seller and Freddie Mac have caused this Master Commitment to be executed by their duly authorized representatives as of the date first set forth above.

FEDERAL HOME LOAN MORTGAGE CORPORATION

By:

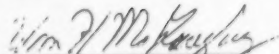


Title:

Beverly Twigg Kennedy
Vice President of Marketing and Sales

TRUCKEE RIVER BANK

By:


(Signature of Authorized Officer)

Print Name:

WILLIAM H. MCGAUGHEY

Title:

EXECUTIVE VICE PRESIDENT
CHIEF OPERATING OFFICER

Date:

APRIL 6, 1992

For mortgage related security trades, whether it be for this or some other transaction, you are invited to call your Freddie Mac Security Sales & Trading Representative at 800-424-5401.

Exhibit I

GUARANTOR CONVERSION WORKSHEET

Date: _____

Master Commitment #: M92033186

Seller/Service #: 932700

Seller Name: Truckee River Bank

\$ Amount Conversion: _____

5-YEAR BALLOON/RESET MORTGAGE RISK CATEGORY PRICING

<u>Risk Category</u>	<u>Required Spread</u>	<u>% of Pool</u>
#1	<u>36.5 bp</u>	_____
#2	<u>31.5 bp</u>	_____

Weighted Average Required Spread
(must be rounded up to the nearest .005%) _____

7-YEAR BALLOON/RESET MORTGAGE RISK CATEGORY PRICING

<u>Risk Category</u>	<u>Required Spread</u>	<u>% of Pool</u>
#3	<u>34.5 bp</u>	_____
#4	<u>29.5 bp</u>	_____

Weighted Average Required Spread
(must be rounded up to the nearest .005%) _____

Seller/Service: _____
(signature of authorized officer)

Verification by Freddie Mac: _____

Conversion #
(To be completed by Freddie Mac)

ATTACHMENT TO MASTER COMMITMENT #M92033186

Special Underwriting Provisions

For Mortgages purchased pursuant to this Master Commitment, the provisions of the sections of the Guide indicated below shall be modified as set forth below. Except as expressly and specifically modified by the provisions of this Attachment, all other provisions of the Guide, including other provisions of the sections of the Guide listed but not specifically modified below, shall remain in effect.

1. "Cash-Out" Refinance Mortgages Secured by Second Homes - Sections 1303 and 1406.1. "Cash-out" refinance mortgages secured by second homes shall be eligible for purchase, provided that:
 - (a) no such Mortgage is secured by a unit in a Class I or Class II Condominium project;
 - (b) the total loan-to-value ratios of all such Mortgages does not exceed 60 percent;
 - (c) in the event any of the proceeds of any such Mortgage are used to pay off junior liens, such junior liens shall be at least two years old as of the Origination Date of such Mortgage; and
 - (d) on the Delivery Date of any such Mortgage, Seller shall pay Freddie Mac a fee equal to 1.5 percent of the aggregate unpaid principal balance of such Mortgage.
2. Balloon/Reset Mortgages Subject to Buydowns - Section 5906. Balloon/Reset Mortgages with temporary subsidy buydown of the monthly payment of principal and interest complying with the terms of Section 1404 of the Guide shall be eligible for purchase, provided that:
 - (a) all such Mortgages are purchase money mortgages secured by owner-occupied primary residences;
 - (b) the initial interest rate is not more than two percent below the Coupon Rate;
 - (c) the increases in the Borrower's principal and interest payment do not exceed the amount which results from a one percent per year increase in the effective interest rate;
 - (d) for Mortgages with total loan-to-value ratios of 75 percent or less, the Borrower is qualified as follows:
 - (i) if the note coupon rate is more than 7 percent, the Borrower is qualified at the greater of 7 percent or the initial interest rate under the buydown agreement; or
 - (ii) if the note coupon rate is less than or equal to 7 percent, the Borrower is qualified at the note coupon rate;

- (e) for Mortgages with total loan-to-value ratios greater than 75 percent but not exceeding 90 percent, the Borrower is qualified as follows:
 - (i) if the note coupon rate is more than 7 percent, the Borrower is qualified at the greater of 7 percent or the initial interest rate under the buydown agreement as of the thirteenth month after the Origination Date of the Mortgage; or
 - (ii) if the note coupon rate is less than or equal to 7 percent, the Borrower is qualified at the note coupon rate;
- (f) all funds for the required down payment, plus all prepaid and escrow items and reserves, are from Borrower's own "cash" as defined in Section 1502 of the Guide but do not include gifts to the Borrower;
- (g) upon delivery of any such Mortgage under the Cash Program, Seller shall pay Freddie Mac a fee in an amount equal to .25 percent of the aggregate unpaid principal balance of all such Mortgages; and
- (h) the aggregate unpaid principal balance of all such Mortgages shall not exceed 10 percent of the aggregate unpaid principal balance of all Mortgages purchased pursuant to this Agreement.

3. "Cash-out" Refinance Balloon/Reset Mortgages - Section 5906. "Cash-out" refinance Balloon/Reset Mortgages shall be eligible for purchase, provided that:

- (a) all such Mortgages are secured by owner-occupied primary residences;
- (b) the total loan-to-value ratios of all such Mortgages shall not exceed 75 percent;
- (c) in the event that (i) the total loan-to-value ratio of any such Mortgage exceeds 65 percent, and (ii) the primary purpose of such Mortgage is to pay off (or pay down) and consolidate Borrower's existing debt obligations under revolving charge accounts or installment loans, Borrower's monthly debt payment-to-income ratio (as defined in Section 2308 of the Guide) shall not exceed the following:
 - (A) 45 percent, when such ratio is calculated including monthly payments on Borrower's existing debt obligations that are paid off (or paid down) and consolidated by all or a portion of such Mortgage; and
 - (B) 36 percent, when such ratio is calculated not including monthly payments on Borrower's existing debt obligations that are paid off (or paid down) and consolidated by all or a portion of such Mortgage; and
- (d) no such Mortgage shall be subject to a temporary subsidy buydown plan.

4. Lien Priority upon Balloon Maturity Date - Second and Third Paragraphs of Section 5920(e). Seller shall not be required to repurchase Balloon/Reset Mortgages if upon the balloon maturity date any liens, defects or encumbrances on the Mortgaged Premises can not be removed or subordinated and Seller can not obtain a title insurance policy or endorsement insuring the reset mortgage as a valid first lien.
5. Mortgages Secured by Investment Properties upon Balloon Maturity Date - Second Bullet and Last Paragraph of Section 5920(f). Seller shall not be required to repurchase Balloon/Reset Mortgages, with respect to which Borrower, as of the balloon maturity date, is not occupying the Mortgaged Premises as a primary residence or second home and shall not be subject to payment of a delivery fee.

ATTACHMENT TO MASTER COMMITMENT #M92033186

Provisions Relating to Mortgages
Secured by Investment Properties

This Attachment sets forth the negotiated terms on which Freddie Mac will purchase Mortgages secured by an investment property. The terms of this Attachment are supplemented if and to the extent any delivery limitations and/or special underwriting provisions of the Master Commitment specifically relate to investment property mortgages.

1. **Definitions.** An investment property is a 1 - 4 unit residential property, other than a primary residence or a second home, which is owned by an individual and is suitable for year-round rental and occupancy. Freddie Mac shall purchase Mortgages secured by investment properties ("investment property mortgages") in accordance with the terms set forth in this Attachment.

2. **Delivery Program and Delivery Restrictions.** All investment property mortgages shall be delivered under the Cash Program or the Guarantor Program.

The aggregate unpaid principal balance of all investment property mortgages purchased pursuant to this Agreement shall not exceed 10 percent of the aggregate unpaid principal balance of all Mortgages purchased pursuant to this Agreement.

3. **Eligible Mortgages.** All investment property mortgages shall be fixed-rate purchase money or "no cash-out" refinance mortgages, provided that if any of the proceeds of a "no cash-out" refinance mortgage are used to pay off a junior lien, such junior lien is at least two years old as of the Origination Date of the refinance mortgage.

4. **Loan-to-value Ratios.** The maximum loan-to-value ("LTV") and total loan-to-value ("TLTV") ratios for investment property mortgages are as follows:

Mortgage Types and Property	Maximum	
	LTV	TLTV
Purchase money mortgages and "no cash-out" refinance mortgages (secured by 1 - 2 unit properties)	70%	70%
Purchase money and "no cash-out" refinance mortgages originated prior to January 1, 1992 (secured by 3 - 4 unit properties)	70%	70%
Purchase money and "no cash-out" refinance mortgages originated on or after January 1, 1992 (secured by 3 - 4 unit properties)	60%	70%

5. **Underwriting and Title Criteria.** Investment property mortgages shall comply with Freddie Mac's underwriting and title criteria for Mortgages secured by owner-occupied primary residences. Additionally, investment property Mortgages shall meet the following requirements:

- (a) Investment property mortgages shall be originated by Seller or a wholly owned subsidiary of Seller.
- (b) The Borrower may not be affiliated in any way with the builder, developer or seller of the Mortgaged Premises.
- (c) Anticipated rental income from the investment property must be substantiated by using the income approach on the appraisal and obtaining copies of prior years' federal tax returns or the present lease. Seller must complete Form 998 with respect to the investment property. If the net cash flow is a positive number, that figure shall be entered as net rental income in the "Gross Monthly Income" section of Form 65 and counted as stable monthly income for purposes of Section 2309 of the Guide, provided that the following conditions are met:
 - (i) Borrower has demonstrated experience in successfully managing investment properties, based on tax returns for two years; and
 - (ii) Borrower has sufficient remaining liquid assets after closing that could be used to supplement payments during vacancies (for at least 6 months) and to make regular and emergency repairs to the property as necessary.

If the net cash flow is a negative number, it must be included as a liability for qualification purposes.

- (d) The expenses related to a Borrower's current primary residence must be used in calculating the Borrower's monthly housing expense-to-income ratio.
- (e) With respect to all investment property mortgages originated on or after January 1, 1992, all funds for the required down payments, plus all prepaid and escrow items and reserves, are from Borrower's own "cash" as defined in Section 1502 of the Guide, but do not include gifts to the Borrower.
- (f) Borrower may not own more than three other 1 - 4 unit properties (including Borrower's primary residence and the home securing the Mortgage delivered pursuant to this paragraph) that are financed. Joint ownership in residential real estate is considered the same as total ownership of an individual property for purposes of this limitation. Ownership in commercial or multifamily (five or more units) real estate is not included in this limitation.
- (g) The total value of financing concessions (as defined in Section 1403 of the Guide) may not exceed 2 percent of value (as defined in Section 1301 of the Guide).
- (h) Temporary subsidy buydown plans (as defined in Section 1404 of the Guide) are not permitted on investment property mortgages.

- (i) Rent loss insurance coverage must be in force, providing for insurer's liability in an amount equal to the gross rentals for at least 6 months for each 2-4 unit investment property mortgage. The Seller must comply with all other insurance requirements found in Sections 6410-6422 (inclusive) of the Guide.
6. Verification Requirements. Investment property mortgages shall comply with the following verification and documentation requirements:
- (a) Borrower's employment and income shall be verified by an original verification of employment form meeting the requirements of Section 2312 of the Guide or, for Borrowers who are self-employed, by documentation complying with the requirements of Section 2312.1 of the Guide.
 - (b) Borrower's source of funds shall be verified by either an original verification of deposit form or, if a sale of assets is involved, a signed settlement statement or other evidence of conveyance and transfer of funds (for example, an authentic bill of sale for personal property or the HUD-1 form or equivalent for real estate sales) complying with the provisions of Section 2313 of the Guide.
 - (c) Borrower's payment history shall be verified by either direct written reference from the mortgagee or landlord or reference contained in the credit report complying with the provisions of Section 2313.1 of the Guide.
7. Loan Documentation. Investment property mortgages shall comply with Freddie Mac's uniform loan instrument and mortgage documentation requirements applicable to mortgages secured by owner-occupied primary residences and second homes. Additionally, investment property mortgages shall meet the following requirements:
- (a) A single family comparable rent schedule, substantively identical to Exhibit "A" attached hereto, must be completed and included as an addendum to Uniform Residential Appraisal Report - Form 70.
 - (b) For each 2 - 4 unit investment property mortgage, Borrower shall execute a 1 - 4 Family Rider - Form 3170.
 - (c) Seller must identify the investment property mortgage as a mortgage secured by investment property by entering code 3 for purchase or code 5 for refinance in the "Purpose of Loan" column on Form 11.
8. Delivery Fees. Seller shall pay Freddie Mac a fee upon delivery in an amount equal to the aggregate unpaid principal balance multiplied by Freddie Mac's participation interest in the investment property Mortgages and further multiplied by the delivery fee rate of 1.50 percent.
- Freddie Mac will refund the fee for investment property mortgages that it determines are ineligible for purchase. Freddie Mac will not refund the fee if it has already purchased the investment property mortgage and the Seller is subsequently required to repurchase the investment property mortgage.

SINGLE FAMILY COMPARABLE RENT SCHEDULE

This form is intended to provide the appraiser with a familiar format to estimate the market rent of the subject property. Adjustments should be made only for items of significant difference between the comparables and the subject property.

ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Address				
Proximity to Subject				
Date Lease Begins Date Lease Expires				
Monthly Rent	\$ Currently Rent: \$	\$	\$	\$
Less: Utilities Furniture	\$	\$	\$	\$
Adjusted Monthly Rent	\$	\$	\$	\$
Data Source				
RENT ADJUSTMENTS	DESCRIPTION	DESCRIPTION + (+) (-) \$ Adjustment	DESCRIPTION + (+) (-) \$ Adjustment	DESCRIPTION + (+) (-) \$ Adjustment
Rent				
Concessions				
Location/View				
Design and Appeal				
Age/Condition				
Above Grade Room Count	Year : Square : Bath	Year : Square : Bath	Year : Square : Bath	Year : Square : Bath
Below Grade Living Area	Sq. Ft.	Sq. Ft.	Sq. Ft.	Sq. Ft.
Other (e.g., basement, etc.)				
Other:				
Net Adj. Month				
Indicated Monthly Market Rent		\$	\$	\$

Comments on market data, including the range of rents for single family properties, an estimate of vacancy for single family rental properties, the general trend of rents and vacancy, and support for the above adjustments. (Rent concessions should be adjusted to the market, not to the subject property.)

Final Reconciliation of Market Rent:

I (WE) ESTIMATE THE MONTHLY MARKET RENT OF THE SUBJECT AS OF _____ YEAR TO BE \$ _____

Appraiser(s) SIGNATURE _____

Review Appraiser SIGNATURE
(If Applicable)

NAME _____

NAME _____

ATTACHMENT TO MASTER COMMITMENT #M92033186

Special Underwriting Provisions

For Mortgages purchased pursuant to this Master Commitment, the provisions of the sections of the Guide indicated below shall be modified as set forth below. Except as expressly and specifically modified by the provisions of this Attachment, all other provisions of the Guide, including other provisions of the sections of the Guide listed but not specifically modified below, shall remain in effect.

1. "Cash-Out" Refinance Mortgages Secured by Second Homes - Sections 1303 and 1406.1. "Cash-out" refinance mortgages secured by second homes shall be eligible for purchase, provided that:
 - (a) no such Mortgage is secured by a unit in a Class I or Class II Condominium project;
 - (b) the total loan-to-value ratios of all such Mortgages does not exceed 60 percent;
 - (c) in the event any of the proceeds of any such Mortgage are used to pay off junior liens, such junior liens shall be at least two years old as of the Origination Date of such Mortgage; and
 - (d) on the Delivery Date of any such Mortgage, Seller shall pay Freddie Mac a fee equal to 1.5 percent of the aggregate unpaid principal balance of such Mortgage.
2. Balloon/Reset Mortgages Subject to Buydowns - Section 5906. Balloon/Reset Mortgages with temporary subsidy buydown of the monthly payment of principal and interest complying with the terms of Section 1404 of the Guide shall be eligible for purchase, provided that:
 - (a) all such Mortgages are purchase money mortgages secured by owner-occupied primary residences;
 - (b) the initial interest rate is not more than two percent below the Coupon Rate;
 - (c) the increases in the Borrower's principal and interest payment do not exceed the amount which results from a one percent per year increase in the effective interest rate;
 - (d) for Mortgages with total loan-to-value ratios of 75 percent or less, the Borrower is qualified as follows:
 - (i) if the note coupon rate is more than 7 percent, the Borrower is qualified at the greater of 7 percent or the initial interest rate under the buydown agreement; or
 - (ii) if the note coupon rate is less than or equal to 7 percent, the Borrower is qualified at the note coupon rate;

- (e) for Mortgages with total loan-to-value ratios greater than 75 percent but not exceeding 90 percent, the Borrower is qualified as follows:
 - (i) if the note coupon rate is more than 7 percent, the Borrower is qualified at the greater of 7 percent or the initial interest rate under the buydown agreement as of the thirteenth month after the Origination Date of the Mortgage; or
 - (ii) if the note coupon rate is less than or equal to 7 percent, the Borrower is qualified at the note coupon rate;
 - (f) all funds for the required down payment, plus all prepaid and escrow items and reserves, are from Borrower's own "cash" as defined in Section 1502 of the Guide but do not include gifts to the Borrower;
 - (g) upon delivery of any such Mortgage under the Cash Program, Seller shall pay Freddie Mac a fee in an amount equal to .25 percent of the aggregate unpaid principal balance of all such Mortgages; and
 - (h) the aggregate unpaid principal balance of all such Mortgages shall not exceed 10 percent of the aggregate unpaid principal balance of all Mortgages purchased pursuant to this Agreement.
3. "Cash-out" Refinance Balloon/Reset Mortgages - Section 5906. "Cash-out" refinance Balloon/Reset Mortgages shall be eligible for purchase, provided that:
- (a) all such Mortgages are secured by owner-occupied primary residences;
 - (b) the total loan-to-value ratios of all such Mortgages shall not exceed 75 percent;
 - (c) in the event that (i) the total loan-to-value ratio of any such Mortgage exceeds 65 percent, and (ii) the primary purpose of such Mortgage is to pay off (or pay down) and consolidate Borrower's existing debt obligations under revolving charge accounts or installment loans, Borrower's monthly debt payment-to-income ratio (as defined in Section 2308 of the Guide) shall not exceed the following:
 - (A) 45 percent, when such ratio is calculated including monthly payments on Borrower's existing debt obligations that are paid off (or paid down) and consolidated by all or a portion of such Mortgage; and
 - (B) 36 percent, when such ratio is calculated not including monthly payments on Borrower's existing debt obligations that are paid off (or paid down) and consolidated by all or a portion of such Mortgage; and
 - (d) no such Mortgage shall be subject to a temporary subsidy buydown plan.

4. Lien Priority upon Balloon Maturity Date - Second and Third Paragraphs of Section 5920(e). Seller shall not be required to repurchase Balloon/Reset Mortgages if upon the balloon maturity date any liens, defects or encumbrances on the Mortgaged Premises can not be removed or subordinated and Seller can not obtain a title insurance policy or endorsement insuring the reset mortgage as a valid first lien.
5. Mortgages Secured by Investment Properties upon Balloon Maturity Date : Second Buliet and Last Paragraph of Section 5920(f). Seller shall not be required to repurchase Balloon/Reset Mortgages, with respect to which Borrower, as of the balloon maturity date, is not occupying the Mortgaged Premises as a primary residence or second home and shall not be subject to payment of a delivery fee.
6. One Balloon/Reset Mortgage Originated by a Third-Party Source. One "cash-out" refinance 7-year Balloon/Reset Mortgage originated by a Third-Party source shall be eligible for purchase, provided that:
 - (a) such Mortgage shall be in the name of Donald S. and Debra K. Miley;
and
 - (b) the aggregate unpaid principal balance of such Mortgage does not exceed \$120,000.

MASTER COMMITMENT AMENDMENT

RE: Master Commitment Contract #M92033186 (Mandatory)
Seller/Service #912700

This master commitment amendment dated April 9, 1992 (the "Amendment"), amends and supplements the above referenced Master Commitment, dated March 31, 1992 (the "Master Commitment"), under which Freddie Mac agreed to purchase mortgages having a maximum aggregate unpaid principal balance of \$10 million from Truckee River Bank.

The amended and supplemental terms are as follows:

A new paragraph 6 shall be added to the Attachment titled "Special Underwriting Provisions" which new paragraph 9 shall read as set forth in the enclosed attachment revised as of April 9, 1992.

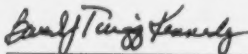
Except as modified in this Amendment, all of the terms and conditions of the original Master Commitment remain in full force and effect.

The original of this Amendment shall be executed by Seller and returned to Freddie Mac by April 23, 1992.

IN WITNESS WHEREOF, Seller and Freddie Mac have caused this Amendment to be executed by their duly authorized representatives as of the date first set forth above.

FEDERAL HOME LOAN MORTGAGE CORPORATION

By:



Beverly Twigg Kennedy

Title:

Vice President of Marketing and Sales

TRUCKEE RIVER BANK

By:


(Signature of Authorized Officer)

Print

Name:

William H. McGaughey

Print

Title:

Executive Vice President

Date:

April 9, 1992

Truckee River Bank

April 10, 1992

Wells Fargo Bank, N.A.
Real Estate Negotiations
111 Sutter Street, 22nd Floor
San Francisco, CA 94163

Re: Renewal of Lease - Bijou Branch, South Lake Tahoe, CA

Ladies/Gentlemen:

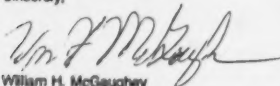
Pursuant to the Sublease entered into on December 1, 1984, between Wells Fargo Bank, N.A., and Truckee River Bank, we hereby exercise our option to renew our lease with you for the above-mentioned property. As described in Paragraph B of the Recitals of the Sublease, we have the option to renew the Master Lease for three further successive terms of five years each. This being the first period from May 4, 1993, and expiration of April 30, 1998.

April 21 (W)

Please acknowledge receipt of this election and acceptance of the renewal request under the same terms and conditions outlined in the Sublease dated December 1, 1984, by signing and returning the enclosed original of this letter, retaining the copy for your files. Please advise any additional security deposit which may be required at this time. After execution of this letter, please return it to the attention of Sierra Tahoe Bancorp, Mrs. Kay Burdick, P.O. Box BD, Truckee, CA 96160.

(W) * , with the exception of the rental which shall be mutually agreed upon, If you have any questions, please contact me at (916) 582-3775. Thank you.

Sincerely,



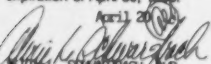
William H. McGaughey
Executive Vice President
Chief Operating Officer

WHD:alo

Enclosure

I acknowledge receipt of the above "Exercise to Renew Option" for Bijou Branch from May 4, 1993, to expiration of April 30, 1998.

April 21 (W)

April 20 (W)

DAVID L. SCHAEFER, M.P.
Wells Fargo Bank, N.A.
Real Estate
Negotiations Representative

April 15, 1992
Dated



Mosler

SELLER'S ORDER NO.

344716

The following, upon execution by both parties, constitutes a contract by and between Mosler Inc., a Delaware Corporation, herein known as "Seller," and the Purchaser, identified below:

PURCHASER TRUCKEE RIVER BANK			PURCHASER'S NO.			INSTALLATION SITE TRUCKEE RIVER BANK		
STREET ADDRESS P.O. BOX RD			STREET ADDRESS DONNER PASS RD & HWY 89					
CITY TRUCKEE, CA	STATE CA	ZIP CODE 96160	CITY TRUCKEE, CA	STATE CA	ZIP CODE 96160			
INVOICE ATTN MS. LORI DAVY, ASSISTANT VICE PRESIDENT			ATTN MS. LORI DAVY					
SALES PERSON MR. ROBERT E. MOSES			SALES PERSON'S NO. 602					

WITNESSETH:

Purchaser agrees to buy and Seller agrees to furnish to Purchaser the following described systems, materials, services and/or installation:

- (8) TELLER STATIONS; (32') 54" HIGH PARTITION; (1) SAFE DEPOSIT CUSTODIAN STATION;
 (2) COUPON BOOTHS; (2) MERCHANT STATIONS WITH ENCLOSURES; (1) 20' WORK ISLAND;
 (5) GATES EQUIPPED WITH HANDICAPPED HARDWARE

FOR WHICH PURCHASER AGREES TO PAY SELLER THE TOTAL CONTRACT PRICE SHOWN BELOW, PLUS ANY APPLICABLE TAXES. TERMS OF PAYMENT ARE AS FOLLOWS:

COMPOSITION OF TOTAL CONTRACT PRICE		TERMS OF PAYMENT	
MATERIAL	\$ <u>23,939.00</u>	ORDERS UNDER \$5000, TERMS NET 30 DAYS	
INSTALLATION	\$ <u>INCLUDED</u>	ORDERS FOR \$5000 OR OVER, TERMS AS FOLLOWS:	
TOTAL CONTRACT	\$ <u>23,939.00</u>	30% 30 DAYS FROM CONTRACT DATE;	
		30% 60 DAYS FROM CONTRACT DATE;	
		30% WHEN MATERIAL IS READY FOR SHIPMENT	
		10% UPON COMPLETION OF THIS CONTRACT	

Shipment will be made approximately 45 days from date of acceptance of this contract by the Seller or from the date upon which approved drawings and / or complete details sufficient to enable Seller to commence manufacture of the materials covered by this contract are received by the Seller, whichever comes later. Purchaser agrees to furnish to Seller all such drawings and details within 30 days from date of acceptance of this contract. If Purchaser does not furnish this information within the specified 30 day period, Seller may extend the delivery and / or installation date one day for each day that extends beyond the specified period.

The contract price shall remain in effect for a period of twelve (12) months from contract date. If installation of materials and/or systems is not completed within this twelve (12) month period, then the balance of the contract price will become due and payable. Additionally, a charge to the Purchaser shall be based on the seller's additional cost incurred not to exceed current Seller's published prices at the time of completion. This charge will be payable upon completion. However, the provisions of this paragraph shall not apply if Seller's inability to perform is a substantial and direct cause for the delay beyond the twelve (12) month period.

Title to the materials and/or systems shall pass to the Purchaser when delivered to the Purchaser's designated installation site or temporary storage site. Purchaser shall provide adequate storage and/or protection for such materials and/or systems during installation. Upon completion of installation, which shall be deemed to occur when the materials and/or systems are ready for beneficial use, the Seller shall be considered to have satisfactorily completed the obligations of this contract. Beneficial use shall mean when materials and/or systems, covered by this contract, function mechanically or electrically in accordance with the Seller's design specifications, even though the Purchaser may not place the materials and/or systems into operation at that time. Warranty shall commence upon the date of completion.

No federal, state or local sales, use, or other tax that may be levied or assessed upon any materials to be furnished under this contract or which relate to the sale, purchase or use of the equipment and/or services furnished under this contract is included herein. Any such tax shall be paid by Purchaser and if, by law Seller is charged with the collection or payment thereof, the amount of said tax shall be added to the contract price and paid by Purchaser. Reimbursement for any taxes imposed upon Seller shall be made by Purchaser, exclusive, however, of taxes based on net income.

This contract, including the conditions and responsibilities set forth hereinafter, contain all express, or implied agreements between the Purchaser and Seller. No oral or other agreements or understandings conflicting with the provisions of this contract shall be of any effect. This contract shall not be effective or binding upon the Seller until signed by one of its duly authorized representatives at its home office in Hamilton, Ohio. A copy of the contract, when so signed, shall be returned to the Purchaser and this shall constitute acknowledgment and acceptance of the contract.

CONTRACT DATE 4/1/92	ACCEPTANCE DATE 4/1/92
PURCHASER Truckee River Bank	SELLER MOSLER INC.
BY VP/Head of Operations	BY R. J. McLaughlin, Mgr., Cust.
(TITLE)	(TITLE)

NOTE THIS CONTRACT INCLUDES ADDITIONAL CONDITIONS FOUND ON THE REVERSE SIDE

Bill to location	407534-0211	Equipment location	407534-0211	Unisys SURETY Service Level (C) Comprehensive (P) BasicPlus (B) Basic (I) Intro
SIERRA TAHOE SERVICING COMPAN		SIERRA TAHOE SERVICING COMPAN		Unisys SURETY Service Plan (1) Mainframe Systems (2) Micro Systems (3) Local Area Networks (4) Multi-vendor & Designated Unisys Hardware Products
STEPHANIE MARCH		STEPHANIE MARCH		
10015 PALISADES DRIVE		10015 PALISADES DRIVE		
TRUCKEE, CA 95734		TRUCKEE, CA 95734		
Administrator	Telephone no.	Administrator	Telephone no.	

The following Unisys SURETY Service Support Plan Supplement(s), which are attached hereto, are incorporated in and made part of this Agreement/Addendum.

Plan code	Form number	Title

List Unisys Products Applicable to This Agreement/Addendum

Level/Plan	Product style name and description (Include vendor name and model if multi-vendor product)	Quantity	Monthly unit charge	Total monthly charge
C/1	B9493-HD2 DISK: 280MB SCSI HH	1	24.00	24.00
	DSK380 DISK: 380MB HH S/E	1		
	A1-138 INSTL: A1/4/6 DISK INSTAL	1		
C/1	X310-90 CTRL: SCSI DLP INTERNAL	1	101.00	101.00

The products listed on this Schedule and any Schedule Continuation Sheet will be serviced in accordance with this Agreement/Addendum. Customer acknowledges it has read and understands this Agreement/Addendum and that the applicable Unisys SURETY Service Support Plan Supplement(s) for all products listed on this Schedule are attached to this Agreement/Addendum.

Total and Grand total do not include any charges for additional services selected by the customer

Total	125.00
Continuation Sheet(s) total	0.00
Grand total	125.00

Agreed and Accepted

Unisys Corporation

(Signature) _____ (Date) _____
 Nick Sandoval
 (Printed/typed name)
 District Manager
 (Title)

Customer

Stephanie M. March 4-27-92
 (Signature) _____ (Date) _____
 STEPHANIE M. MARCH
 (Printed/typed name)
 1st VICE PRESIDENT
 (Title)

UNISYS**Supplemental Schedule A
Equipment Sale**

Agreement number

90040258

Equipment location

Sierra Tahoe Servicing Company

Truckee, Calif. 96160

Item number	Style name and description	Quantity	Unit purchase price	Customer install code	Installation charge	Total purchase price
1	B9493-HD2 Disk	1		N	105.00	
2	X310-90 DLP	1		N	160.00	
					Total installation charge	Total purchase price
					\$ 265.00	\$

Less: down payment

\$

other

\$

Total net purchase price

\$

This Supplemental Schedule is an amendment to the Consolidated Agreement, (see Agreement number above) and is governed by the terms and conditions of said Agreement, and will become effective when accepted by Unisys.

Agreed and Accepted

Unisys Corporation

Signature _____ Date _____

Name (Printed) _____

Title _____

Customer

Signature Stephanie M. Marsh Date 4-27-92Name (Printed) STEPHANIE M. MARSHTitle 1st VICE PRESIDENT

**Truckee River Bank**10015 Palisades Drive
PO Box 80
Truckee, CA 95734**PURCHASE ORDER****No. 05692**

FOB

☐ SHIPPING POINT☐ DESTINATION

TO

SHIP TO:

INFORMATION TECHNOLOGY

TRUCKEE RIVER BANK

10181 TRUCKEE TAHOE AIRPORT
TRUCKEE, CA 96161

REQUESTED BY

VENDOR NO

DATE REQUIRED

HOW SHIP

TERMS

DATE

S MARSH

PRIOR TO MAY 15th

FASTEST METHOD POSSIBLE

4-27-92

QUANTITY		DATE REC'D	DESCRIPTION	EST	PRICE PER UNIT	TOTAL PRICE
ORDERED	RECEIVED					
1			B9793-HD2			
			280 MB HALF HEIGHT DISC			4,250
1			X316-90 SCSI DLP			5,000
			4.5% DISCOUNT			<416>

* NOTE IF PRICES ARE ESTIMATED, PLACE ✓ IN ESTIMATED COLUMN.

ACCOUNT NUMBER

DEPT

53

HARDWARE

S MARSH

S MARSH

AUTHORIZED SIGNATURE

SUBTOTAL

8,834

FREIGHT

TAX

TOTAL

INFORMATION TECHNOLOGY INC.

EQUIPMENT SALE AGREEMENT

Agreement made between Information Technology, Inc. (the "Vendor"), and the "Customer" identified below.

I. PURCHASE

1.1 Customer hereby purchases from Vendor and Vendor hereby sells to Customer the equipment identified in Appendix A (the "Equipment"), upon the terms set forth in this agreement.

II. DELIVERY

2.1 Delivery and installation of the Equipment will be made by the manufacturer of the Equipment identified in Appendix A (the "Manufacturer"), at Customer's address set forth below. Customer agrees to have a site adequately and properly prepared, in accordance with Manufacturer's instructions, to receive and accept delivery of the Equipment. In no event shall Vendor be responsible to Customer for any delays in delivery or installation or any damages to Customer resulting from such delays.

III. CONSIDERATION

3.1 **PURCHASE PRICE.** As and for the purchase price for the Equipment, Customer agrees to pay Vendor and Vendor agrees to accept from Customer, the purchase price specified in Appendix A.

3.2 **TAXES AND OTHER CHARGES.** In addition to the purchase price, Customer shall pay all transportation charges and all taxes (including, without limitation, sales, use, privilege, ad valorem or excise taxes) and customs duties paid or payable by Vendor, however designated, levied or based on amounts payable to Vendor under this agreement, but exclusive of federal, state and local taxes based on Vendor's net income. If additional labor and rigging are required for installation due to Customer's special site requirements, Customer will pay those costs, including costs to meet union or local law requirements. Customer shall not deduct from payments to Vendor any amounts paid or payable to third parties for transportation charges, customs duties or taxes, however designated.

3.3 **MANNER OF PAYMENTS.** The purchase price and other charges arising under this agreement shall be payable by Customer to Vendor in the following manner:

(A) A percentage of the purchase price, as specified in Appendix A, shall be payable upon execution of this agreement by Customer; the receipt or deposit of such payment, however, shall not constitute Vendor's acceptance of this agreement.

(B) The balance of the purchase price, together with any transportation charges and any taxes and duties therefor incurred by Vendor, shall be payable upon delivery of the Equipment to Customer.

(C) Any taxes, duties, or other charges incurred by Vendor following delivery of the Equipment shall be payable within ten (10) days of receipt by Customer of Vendor's invoice therefor.

3.4 **CURRENCY.** The purchase price and any other charges arising under this agreement shall be invoiced and be payable in U.S. Dollars.

3.5 **LATE PAYMENT.** Customer shall pay a late payment charge of one and one-half percent (1½%) per month, or the maximum late payment charge permitted by applicable law, whichever is less, on any amount payable by Customer under this Agreement and not paid when due. Said late payment charge shall be applied for each calendar month (or fraction thereof) that such payment is not made following its due date.

IV. TITLE

4.1 Until such time as the purchase price and any other charges payable to Vendor as of the date of delivery have been paid in full, the Equipment and all instruction manuals therefor shall remain the property of Vendor and, at the option of Vendor, shall be returned to Vendor at Customer's expense in the event the purchase price is not paid as hereinabove provided.

V. SECURITY

5.1 Vendor reserves and Customer grants to Vendor a security interest in the Equipment as security for the performance by Customer of its obligations hereunder including, but not limited to, payment of the purchase price and other charges as specified in Section III above. A copy of this agreement may be filed in appropriate filing offices at any time after signature by Customer as a financing statement or Vendor may require and Customer shall execute a separate financing statement for purposes of perfecting Vendor's security interest granted pursuant to the provisions of this paragraph.

VI. CUSTOMER OBLIGATIONS

6.1 **RISK OF LOSS.** From and after the date of delivery, the risk of loss or damage to the Equipment shall be on the Customer.

6.2 **OPERATION.** Customer acknowledges and agrees that it is exclusively responsible for the operation, supervision, management and control of the Equipment, including, but not limited to, providing adequate training for its personnel, instituting appropriate security procedures, and implementing reasonable procedures to examine and verify all output before use. Vendor shall have no responsibility or liability for Customer's selection or use of the Equipment or any associated equipment.

VII. WARRANTIES

7.1 **WARRANTY.** Vendor warrants to Customer that it has the right to transfer title of the Equipment to Customer. Vendor's sole liability under this warranty shall be to obtain any title or authorization necessary to transfer such title to Customer.

7.2 **DISCLAIMER.** THE FOREGOING WARRANTY IS IN LIEU OF ALL OTHER WARRANTIES AND NO OTHER WARRANTY IS EXPRESSED OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

7.3 **MANUFACTURER'S WARRANTY.** Customer expressly understands and agrees that warranties regarding patents, materials, workmanship or use of the Equipment (the "Manufacturer's Warranty"), if any, are made exclusively by the Manufacturer and not by Vendor, and if made, shall be encompassed within a separate agreement. Customer's exclusive remedy under Manufacturer's Warranty shall be as provided therein and shall lie exclusively against and be obtainable only from the Manufacturer, and Customer expressly agrees that it shall have no claim or cause of action against Vendor in the event the Manufacturer is for any reason unwilling or unable to perform under the terms of Manufacturer's Warranty.

7.4 **LIMITATION OF LIABILITY.** Customer expressly agrees that Vendor's responsibilities in the event of its breach of the warranties contained in paragraph 7.1 of this agreement are as set forth in said paragraph. Vendor's liability for damages, regardless of the form of action shall not exceed the purchase price set forth in Appendix A to this agreement and shall arise only if the remedies set forth in paragraph 7.1 are not fulfilled by Vendor. Customer further agrees that Vendor will not be liable for any lost profits, or for any claim or demand against Customer by any other party. IN NO EVENT WILL VENDOR BE LIABLE FOR CONSEQUENTIAL DAMAGES EVEN IF VENDOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. No action, regardless of form, arising out of the transactions under this agreement, may be brought by either party more than one (1) year after the cause of action has accrued, except that an action for non-payment may be brought within one (1) year after the date of the last payment.

VIII. DEFAULT

8.1 **REMEDY.** Upon the occurrence of an event of default, as hereinafter defined, by Customer, if the Equipment has theretofore been delivered, Vendor may recover, together with any incidental damages, any unpaid portion of the purchase price of the Equipment as specified in Appendix A hereto. If the Equipment has not been delivered, in which event Vendor may withhold delivery of such Equipment, or if the Equipment is returned to Vendor upon Vendor's election pursuant to Section IV, Vendor shall resell the Equipment. Upon such resale, Vendor shall recover from Customer the difference between the unpaid portion of the purchase price, as specified in Appendix A, and the resale price, together with any incidental damages, including expenses of resale, sustained by Vendor by reason of Customer's breach. If the resale price exceeds the unpaid portion of the purchase price and Vendor's incidental damages, Vendor shall remit the excess to Customer.

8.2 **EVENTS OF DEFAULT.** As utilized in this agreement, an event of default is defined as any of the following:

(A) Customer's failure to pay any amounts required to be paid to Vendor under this agreement on a timely basis;

(B) Until the purchase price has been paid in full, any attempt by Customer to assign, sell, mortgage, or otherwise convey the Equipment;

(C) Prior to the payment in full of the purchase price, Customer causing or permitting any encumbrance, of any nature whatsoever, to attach to Customer's interest in the Equipment in favor of any person or entity other than Vendor;

(D) The entry of any order for relief under any provision of the federal bankruptcy code in any bankruptcy proceedings initiated by or against Customer; or

(E) Customer's breach of any of the terms or conditions of this agreement.

IX. GENERAL

9.1 **TITLES.** Titles and paragraph headings are for reference purposes only and are not to be considered a part of this agreement.

9.2 **FORCE MAJEURE.** No party shall be liable for delay in performance hereunder due to causes beyond its control, including but not limited to acts of God, fires, strikes, delinquencies of suppliers, intervention of any governmental authority or acts of war, and each party shall take steps to minimize any such delay.

9.3 **WAIVER.** No waiver of any breach of any provision of this agreement shall constitute a waiver of any prior, concurrent or subsequent breach of the same or any other provisions hereof and no waiver shall be effective unless made in writing and signed by an authorized representative of the party to be charged therewith.

CUSTOMER:

Sierca Tahoe Servicing Company

Signature: Alphonse M. Marsik

Name: STEPHANIE M. MARSH

Title: 1ST VICE PRESIDENT

Address: 10181 Truckee-Tahoe Airport Blvd.

Truckee, CA 96160

Date: _____

9.4 **SEVERABILITY.** In the event that any provision of this agreement shall be illegal or otherwise unenforceable, such provision shall be severed from this agreement and the entire agreement shall not fail on account thereof, the balance of the agreement continuing in full force and effect.

9.5 **NOTICES.** Any notice which either party hereto is required or permitted to give hereunder shall be addressed to the party to be charged therewith at the address set forth below and shall be given by certified or registered mail. Any such notice shall be deemed given on the date of deposit in the mail.

9.6 **ENTIRE AGREEMENT.** THE PARTIES HERETO ACKNOWLEDGE THAT EACH HAS READ THIS AGREEMENT, UNDERSTANDS IT, AND AGREES TO BE BOUND BY ITS TERMS. THE PARTIES FURTHER AGREE THAT THIS AGREEMENT AND ANY MODIFICATIONS MADE PURSUANT TO IT CONSTITUTE THE COMPLETE AND EXCLUSIVE WRITTEN EXPRESSION OF THE TERMS OF THE AGREEMENT BETWEEN THE PARTIES, AND SUPERSEDE ALL PRIOR OR CONTEMPORANEOUS PROPOSALS, ORAL OR WRITTEN, UNDERSTANDINGS, REPRESENTATIONS, CONDITIONS, WARRANTIES, COVENANTS, AND ALL OTHER COMMUNICATIONS BETWEEN THE PARTIES RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT. THE PARTIES FURTHER AGREE THAT THIS AGREEMENT MAY NOT IN ANY WAY BE EXPLAINED OR SUPPLEMENTED BY A PRIOR OR EXISTING COURSE OF DEALINGS BETWEEN THE PARTIES, BY ANY USAGE OF TRADE OR CUSTOM, OR BY ANY PRIOR PERFORMANCE BETWEEN THE PARTIES PURSUANT TO THIS AGREEMENT OR OTHERWISE. IN THE EVENT CUSTOMER ISSUES A PURCHASE ORDER OR OTHER INSTRUMENT COVERING THE EQUIPMENT HEREIN SPECIFIED, IT IS UNDERSTOOD AND AGREED THAT SUCH PURCHASE ORDER OR OTHER INSTRUMENT IS FOR CUSTOMER'S INTERNAL USE AND PURPOSES ONLY AND SHALL IN NO WAY AFFECT ANY OF THE TERMS AND CONDITIONS OF THIS AGREEMENT.

9.7 **GOVERNING LAW.** This agreement is accepted in the State of Nebraska, and shall be enforced in accordance with and governed by the laws of the State of Nebraska.

9.8 **CHOICE OF FORUM.** Any action arising out of or related to this agreement or the transaction herein described, whether at law or in equity, may be instituted in and litigated in the state or federal courts of the State of Nebraska. In accordance herewith, the parties hereto submit to the jurisdiction of the courts of said state. Any party being not a resident of Nebraska at the time of suit hereby appoints the Secretary of State of Nebraska as its agent for receipt of service of process.

9.9 **ATTORNEY'S FEES.** In the event that any action or proceeding is brought in connection with this agreement the prevailing party therein shall be entitled to recover its costs and reasonable attorney's fees.

9.10 **EFFECTIVE DATE.** This agreement shall be effective on the date accepted and executed by an authorized representative of Vendor.

VENDOR:

INFORMATION TECHNOLOGY, INC.

Signature: _____

Name: _____

Title: _____

Address: 1345 Old Cheney Road

Lincoln, NE 68512

Date Accepted: _____

APPENDIX A

EQUIPMENT AND TERMS

1. MANUFACTURER. The Manufacturer of the Equipment subject to this agreement is:
2. PURCHASE PRICE: The purchase price for the Equipment is \$ 8,834.00 . 10 % thereof shall be payable upon execution of this agreement, the balance upon delivery of the Equipment.
3. EQUIPMENT. The Equipment subject to this agreement consists of the following:

<u>QTY</u>	<u>STYLE</u>	<u>DESCRIPTION</u>	<u>PRICE</u>
1	B9493-HD2	280 MB Half Height Disk	\$4,250
1	X310-90	SCSI DLP	5,000
		Sub Total	\$9,250
		Less 4.5%	416
		TOTAL PURCHASE	\$8,834

EXHIBIT C
UNISYS CORPORATION
MA I USER AGREEMENT

In consideration of Sierra Tahoe Servicing Company

(hereinafter referred to as "User") having executed an equipment sale agreement dated, _____
with ITI _____, hereinafter referred to as "MA I" which includes the purchase
by User of a Unisys A4-FS _____ System and the license of its associated Unisys
Software, Unisys Corporation ("Unisys") and User agree to the following terms and conditions:

1. MANUFACTURER'S WARRANTY

Unisys grants to User as the user of the Unisys equipment the following Manufacturer's Warranty:

Unisys warrants that: (a) Unisys has title of the equipment and right to sell it; and (b) for a period of 0 _____ from installation, the equipment delivered under this Agreement shall be free from defects in material and workmanship under normal use provided the equipment has received the normal required maintenance service. No free maintenance is included in this warranty.

Written notice and an explanation of circumstances concerning any claim the equipment has proved defective in material or workmanship shall be given promptly by User to Unisys. User's sole and exclusive remedy in the event of defect is expressly limited to the correction of the defect by adjustment, repair or replacement, at Unisys election and sole expense, except that there shall be no obligation to replace or repair items which by nature are expendable.

No representation or other affirmation of fact, including but not limited to statements regarding capacity, suitability for use, or performance of the equipment shall be or be deemed to be a warranty by Unisys for any purpose, nor give rise to any liability or obligation of Unisys whatsoever.

EXCEPT AS SPECIFICALLY PROVIDED IN THE AGREEMENT, THERE ARE NO OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

In the event of employment by User of any non-Unisys attachment, feature, or device on the equipment, or any part thereof, furnished by Unisys hereunder, which has not been approved in writing by Unisys, Unisys shall not be liable under this warranty. The approval of the use of any non-Unisys attachment, feature, or device shall not be deemed to be a representation, warranty or understanding by Unisys regarding that non-Unisys attachment, feature or device, including its performance in conjunction with the Unisys equipment.

2. MAINTENANCE

In addition to the above Manufacturer's Warranty, Unisys will have, subject to availability, maintenance services available to User at Unisys then current maintenance rates under the terms and conditions of Unisys standard License and Service Agreement, attached hereto as Attachment I. The Unisys equipment will be automatically included in this License and

Service Agreement for a period of one year, at the then current rates, unless User requests otherwise in writing.

3. DELIVERY

Unisys shall not be responsible to User for any delay in delivery of any Unisys products equipment to User.

4. DISCLAIMER

USER ACKNOWLEDGES THAT UNISYS HAS MADE NO REPRESENTATIONS OR WARRANTIES TO USER WITH RESPECT TO ANY NON-UNISYS SOFTWARE, INCLUDING ANY MA I SOFTWARE, ITS PERFORMANCE ON THE UNISYS EQUIPMENT, OR THE SERVICE TO BE PROVIDED WITH RESPECT TO SUCH NON-UNISYS SOFTWARE, AND UNISYS SHALL INCUR NO LIABILITY TO USER ARISING OUT OF THE USE OF SUCH NON-UNISYS SOFTWARE OR THE FURNISHING OF SUCH SERVICE. USER ACKNOWLEDGES THAT NO UNISYS SOFTWARE IS BEING FURNISHED TO USER BY UNISYS EXCEPT PURSUANT TO / SEPARATE WRITTEN LICENSE AGREEMENT BETWEEN USER AND UNISYS.

5. PATENT INDEMNITY

- (a) Unisys shall defend or settle any suit or proceeding brought against User based on claim that any equipment made to Unisys design constitutes an infringement of an existing United States patent, provided Unisys is notified promptly in writing and is given complete authority and information required for the defense, and Unisys shall pay all damages and costs awarded therein against User, but shall not be responsible for any cost, expense or compromise incurred or made by User without Unisys prior written consent.
- (b) If any equipment is, in Unisys opinion, likely to or does become the subject of a claim for patent infringement, Unisys may at its option and expense procure for User the right to continue using the equipment, or modify it to become non-infringing, but if Unisys is not reasonably able to modify or otherwise procure for user the right to continue using it, Unisys will remove the equipment and refund to User the amount paid in excess of a reasonable rental for past use.
- (c) Unisys shall not be liable for any infringement or claim thereof based upon use of the equipment in combination with other equipment or with software not supplied by Unisys, or with modification made by User.
- (d) The foregoing states the entire liability of Unisys to User arising from infringement.

6. UNISYS PROGRAM PRODUCTS

Any Unisys Software is provided under the terms and conditions of Unisys License and Service Agreement incorporated as a part of this Agreement and attached hereto as Attachment II. This License Agreement must be signed by User.

Notwithstanding the terms and conditions of the Unisys License and Service Agreement, User understands that MA I will provide User, on Unisys behalf, with certain of the Unisys services (revision, updates, patches) for the Unisys Software portion of the programming to be used by User.

7. LIMITATION OF LIABILITY

No representation or other affirmation of fact, including but not limited to statements regarding capacity, suitability for use or performance of the equipment shall be or be deemed to be a warranty by Unisys for any purpose, nor give rise to any liability or obligation of Unisys whatsoever.

The User agrees that the Agreement herein is the complete and exclusive statement of the agreement between Unisys and User which takes precedent over all oral and written and all other communications including proposals between the parties relating to the subject matter of this Agreement.

AGREED:

Sierra Tahoe Servicing Company
(USER)
BY: Stephen M. Mous
TITLE: 1st Vice President
DATE: 4-27-92

IN NO EVENT SHALL UNISYS BE LIABLE TO USER FOR LOSS OF PROFITS OR OTHER ECONOMIC LOSS, CONSEQUENTIAL, INCIDENTAL, INDIRECT OR SPECIAL DAMAGES OF ANY KIND OR NATURE ARISING OUT OF BREACH OF WARRANTY, DELAY IN DELIVERY, USE OF THE EQUIPMENT, INSTALLATION OR MAINTENANCE OR ANY OTHER BREACH OF CONTRACT OR REPRESENTATION.

8. GOVERNING LAW

This Agreement shall be construed according to the laws of the Commonwealth of Pennsylvania.

9. TAXES

User shall pay Unisys any tax (except tax based on net income) on or measured by the price, other charges, the equipment, program products, or services furnished by Unisys, or their use, however designated, levied or based whenever Unisys must pay and/or collect the tax according to applicable law, as interpreted by the departmental authorities of the taxing unit. It shall be User's sole obligation after payment to challenge the applicability of any tax. Any personal property tax assessable on the equipment after delivery shall be borne by User.

ACCEPTED:

UNISYS CORPORATION
BY: _____
TITLE: _____
DATE: _____

INFORMATION TECHNOLOGY INC.

EQUIPMENT SALE AGREEMENT

Agreement made between Information Technology, Inc. (the "Vendor"), and the "Customer" identified below.

I. PURCHASE

1.1 Customer hereby purchases from Vendor and Vendor hereby sells to Customer the equipment identified in Appendix A (the "Equipment"), upon the terms set forth in this agreement.

II. DELIVERY

2.1 Delivery and installation of the Equipment will be made by the manufacturer of the Equipment identified in Appendix A (the "Manufacturer"), at Customer's address set forth below. Customer agrees to have a site adequately and properly prepared, in accordance with Manufacturer's instructions, to receive and accept delivery of the Equipment. In no event shall Vendor be responsible to Customer for any delays in delivery or installation or any damages to Customer resulting from such delays.

III. CONSIDERATION

3.1 **PURCHASE PRICE.** As and for the purchase price for the Equipment, Customer agrees to pay Vendor and Vendor agrees to accept from Customer, the purchase price specified in Appendix A.

3.2 **TAXES AND OTHER CHARGES.** In addition to the purchase price, Customer shall pay all transportation charges and all taxes (including, without limitation, sales, use, privilege, ad valorem or excise taxes) and customs duties paid or payable by Vendor, however designated, levied or based on amounts payable to Vendor under this agreement, but exclusive of federal, state and local taxes based on Vendor's net income. If additional labor and rigging are required for installation due to Customer's special site requirements, Customer will pay those costs, including costs to meet union or local law requirements. Customer shall not deduct from payments to Vendor any amounts paid or payable to third parties for transportation charges, customs duties or taxes, however designated.

3.3 **MANNER OF PAYMENTS.** The purchase price and other charges arising under this agreement shall be payable by Customer to Vendor in the following manner:

(A) A percentage of the purchase price, as specified in Appendix A, shall be payable upon execution of this agreement by Customer, the receipt or deposit of such payment, however, shall not constitute Vendor's acceptance of this agreement.

(B) The balance of the purchase price, together with any transportation charges and any taxes and duties theretofore incurred by Vendor, shall be payable upon delivery of the Equipment to Customer.

(C) Any taxes, duties, or other charges incurred by Vendor following delivery of the Equipment shall be payable within ten (10) days of receipt by Customer of Vendor's invoice therefor.

3.4 **CURRENCY.** The purchase price and any other charges arising under this agreement shall be invoiced and be payable in U.S. Dollars.

3.5 **LATE PAYMENT.** Customer shall pay a late payment charge of one and one-half percent (1½%) per month, or the maximum late payment charge permitted by applicable law, whichever is less, on any amount payable by Customer under this Agreement and not paid when due. Said late payment charge shall be applied for each calendar month (or fraction thereof) that such payment is not made following its due date.

IV. TITLE

4.1 Until such time as the purchase price and any other charges payable to Vendor as of the date of delivery have been paid in full, the Equipment and all instruction manuals therefor shall remain the property of Vendor and, at the option of Vendor, shall be returned to Vendor at Customer's expense in the event the purchase price is not paid as hereinabove provided.

V. SECURITY

5.1 Vendor reserves and Customer grants to Vendor a security interest in the Equipment as security for the performance by Customer of its obligations hereunder including, but not limited to, payment of the purchase price and other charges as specified in Section III above. A copy of this agreement may be filed in appropriate filing offices at any time after signature by Customer as a financing statement or Vendor may require and Customer shall execute a separate financing statement for purposes of perfecting Vendor's security interest granted pursuant to the provisions of this paragraph.

VI. CUSTOMER OBLIGATIONS

6.1 **RISK OF LOSS.** From and after the date of delivery, the risk of loss or damage to the Equipment shall be on the Customer.

6.2 **OPERATION.** Customer acknowledges and agrees that it is exclusively responsible for the operation, supervision, management and control of the Equipment, including, but not limited to, providing adequate training for its personnel, instituting appropriate security procedures, and implementing reasonable procedures to examine and verify all output before use. Vendor shall have no responsibility or liability for Customer's selection or use of the Equipment or any associated equipment.

VII. WARRANTIES

7.1 **WARRANTY.** Vendor warrants to Customer that it has the right to transfer title of the Equipment to Customer. Vendor's sole liability under this warranty shall be to obtain any title or authorization necessary to transfer such title to Customer.

7.2 **DISCLAIMER.** THE FOREGOING WARRANTY IS IN LIEU OF ALL OTHER WARRANTIES AND NO OTHER WARRANTY IS EXPRESSED OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

7.3 **MANUFACTURER'S WARRANTY.** Customer expressly understands and agrees that warranties regarding patents, materials, workmanship or use of the Equipment (the "Manufacturer's Warranty"), if any, are made exclusively by the Manufacturer and not by Vendor, and if made, shall be encompassed within a separate agreement. Customer's exclusive remedy under Manufacturer's Warranty shall be as provided therein and shall lie exclusively against and be obtainable only from the Manufacturer, and Customer expressly agrees that it shall have no claim or cause of action against Vendor in the event the Manufacturer is for any reason unwilling or unable to perform under the terms of Manufacturer's Warranty.

7.4 **LIMITATION OF LIABILITY.** Customer expressly agrees that Vendor's responsibilities in the event of its breach of the warranties contained in paragraph 7.1 of this agreement are as set forth in said paragraph. Vendor's liability for damages, regardless of the form of action shall not exceed the purchase price set forth in Appendix A to this agreement and shall arise only if the remedies set forth in paragraph 7.1 are not fulfilled by Vendor. Customer further agrees that Vendor will not be liable for any lost profits, or for any claim or demand against Customer by any other party. IN NO EVENT WILL VENDOR BE LIABLE FOR CONSEQUENTIAL DAMAGES EVEN IF VENDOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. No action, regardless of form, arising out of the transactions under this agreement, may be brought by either party more than one (1) year after the cause of action has accrued, except that an action for non-payment may be brought within one (1) year after the date of the last payment.

VIII. DEFAULT

8.1 REMEDY. Upon the occurrence of an event of default, as hereinafter defined, by Customer, if the Equipment has theretofore been delivered, Vendor may recover, together with any incidental damages, any unpaid portion of the purchase price of the Equipment as specified in Appendix A hereto. If the Equipment has not been delivered, in which event Vendor may withhold delivery of such Equipment, or if the Equipment is returned to Vendor upon Vendor's election pursuant to Section IV, Vendor shall resell the Equipment. Upon such resale, Vendor shall recover from Customer the difference between the unpaid portion of the purchase price, as specified in Appendix A, and the resale price, together with any incidental damages, including expenses of resale, sustained by Vendor by reason of Customer's breach. If the resale price exceeds the unpaid portion of the purchase price and Vendor's incidental damages, Vendor shall remit the excess to Customer.

8.2 EVENTS OF DEFAULT. As utilized in this agreement, an event of default is defined as any of the following:

(A) Customer's failure to pay any amounts required to be paid to Vendor under this agreement on a timely basis.

(B) Until the purchase price has been paid in full, any attempt by Customer to assign, sell, mortgage, or otherwise convey the Equipment.

(C) Prior to the payment in full of the purchase price, Customer causing or permitting any encumbrance, of any nature whatsoever, to attach to Customer's interest in the Equipment in favor of any person or entity other than Vendor;

(D) The entry of any order for relief under any provision of the federal bankruptcy code in any bankruptcy proceedings initiated by or against Customer; or

(E) Customer's breach of any of the terms or conditions of this agreement.

IX. GENERAL

9.1 TITLES. Titles and paragraph headings are for reference purposes only and are not to be considered a part of this agreement.

9.2 FORCE MAJEURE. No party shall be liable for delay in performance hereunder due to causes beyond its control, including but not limited to acts of God, fires, strikes, delinquencies of suppliers, intervention of any governmental authority or acts of war, and each party shall take steps to minimize any such delay.

9.3 WAIVER. No waiver of any breach of any provision of this agreement shall constitute a waiver of any prior, concurrent or subsequent breach of the same or any other provisions hereof and no waiver shall be effective unless made in writing and signed by an authorized representative of the party to be charged therewith.

9.4 SEVERABILITY. In the event that any provision of this agreement shall be illegal or otherwise unenforceable, such provision shall be severed from this agreement and the entire agreement shall not fail on account thereof, the balance of the agreement continuing in full force and effect.

9.5 NOTICES. Any notice which either party hereto is required or permitted to give hereunder shall be addressed to the party to be charged therewith at the address set forth below and shall be given by certified or registered mail. Any such notice shall be deemed given on the date of deposit in the mail.

9.6 ENTIRE AGREEMENT. THE PARTIES HERETO ACKNOWLEDGE THAT EACH HAS READ THIS AGREEMENT, UNDERSTANDS IT, AND AGREES TO BE BOUND BY ITS TERMS. THE PARTIES FURTHER AGREE THAT THIS AGREEMENT AND ANY MODIFICATIONS MADE PURSUANT TO IT CONSTITUTE THE COMPLETE AND EXCLUSIVE WRITTEN EXPRESSION OF THE TERMS OF THE AGREEMENT BETWEEN THE PARTIES, AND SUPERSEDE ALL PRIOR OR CONTEMPORANEOUS PROPOSALS, ORAL OR WRITTEN, UNDERSTANDINGS, REPRESENTATIONS, CONDITIONS, WARRANTIES, COVENANTS, AND ALL OTHER COMMUNICATIONS BETWEEN THE PARTIES RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT. THE PARTIES FURTHER AGREE THAT THIS AGREEMENT MAY NOT IN ANY WAY BE EXPLAINED OR SUPPLEMENTED BY A PRIOR OR EXISTING COURSE OF DEALINGS BETWEEN THE PARTIES, BY ANY USAGE OF TRADE OR CUSTOM, OR BY ANY PRIOR PERFORMANCE BETWEEN THE PARTIES PURSUANT TO THIS AGREEMENT OR OTHERWISE. IN THE EVENT CUSTOMER ISSUES A PURCHASE ORDER OR OTHER INSTRUMENT COVERING THE EQUIPMENT HEREIN SPECIFIED, IT IS UNDERSTOOD AND AGREED THAT SUCH PURCHASE ORDER OR OTHER INSTRUMENT IS FOR CUSTOMER'S INTERNAL USE AND PURPOSES ONLY AND SHALL IN NO WAY AFFECT ANY OF THE TERMS AND CONDITIONS OF THIS AGREEMENT.

9.7 GOVERNING LAW. This agreement is accepted in the State of Nebraska, and shall be enforced in accordance with and governed by the laws of the State of Nebraska.

9.8 CHOICE OF FORUM. Any action arising out of or related to this agreement or the transaction herein described, whether at law or in equity, may be instituted in and litigated in the state or federal courts of the State of Nebraska. In accordance herewith, the parties hereto submit to the jurisdiction of the courts of said state. Any party being not a resident of Nebraska at the time of suit hereby appoints the Secretary of State of Nebraska as its agent for receipt of service of process.

9.9 ATTORNEY'S FEES. In the event that any action or proceeding is brought in connection with this agreement the prevailing party therein shall be entitled to recover its costs and reasonable attorney's fees.

9.10 EFFECTIVE DATE. This agreement shall be effective on the date accepted and executed by an authorized representative of Vendor.

CUSTOMER:

Siera Tahoe Servicing Company

Signature

Stephanie M. Marsh

Name

STEPHANIE M. MARSH

Title

1ST VICE PRESIDENT

Address 10181 Truckee-Tahoe Airport Blvd.

Truckee, CA 96150

VENDOR:

INFORMATION TECHNOLOGY, INC.

Signature

Name

Title

Address: 1345 Old Cheney Road

Lincoln, NE 68512

APPENDIX A
EQUIPMENT AND TERMS

1. **MANUFACTURER:** The Manufacturer of the Equipment subject to this agreement is:

2. **PURCHASE PRICE:** The purchase price for the Equipment is \$ 8,834.00 . 10% thereof shall be payable upon execution of this agreement, the balance upon delivery of the Equipment.

3. **EQUIPMENT:** The Equipment subject to this agreement consists of the following:

<u>QTY</u>	<u>STYLE</u>	<u>DESCRIPTION</u>	<u>PRICE</u>
1	B9493-HD2	280 MB Half Height Disk	\$4,250
1	X310-90	SCSI DLP	5,000
		Sub Total	\$9,250
		Less 4.5%	416
		TOTAL PURCHASE	\$8,834

Truckee River Bank

March 11, 1992

CERTIFIED/RETURN RECEIPT REQUESTED

Truckee Donner Recreation and Park District
Steve Randall, General Manager
P.O. Box 1087
Truckee, CA 96160

Re: Renewal of Lease - Bridge Street Parking Lot

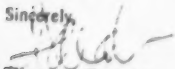
Dear Mr. Randall:

Pursuant to our lease agreement dated September 16, 1982, wherein Section 1.2 provides the option to extend the term of this lease for two (2) additional five (5) year terms and one six (6) year term until September 14, 2003, we hereby exercise our option to renew for the five year period of September 15, 1992, to September 14, 1997.

Please acknowledge receipt of Truckee River Bank's option to renew by signing and returning the enclosed original of this letter and keeping the enclosed copy for your files.

Many thanks.

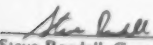
Sincerely,


Thomas J. Faragher
President/Chief Executive Officer

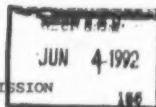
TJF:akb

Enclosure

I acknowledge receipt of the above-mentioned option to renew.


Steve Randall, General Manager
Truckee Donner Recreation and Parks District

0 8277
Q-36744



21

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

mg/5
92-2262

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 1992

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

PROCESSED BY
21-17-V
JUN 5 1992

For the transition period from to

Commission file number 1-10245

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

RCM Technologies, Inc.

(Exact name of registrant as specified in its charter)

L3Q

Nevada
(State or other jurisdiction
of incorporation or organization)

95-1480559
(IRS Employer
Identification No.)

2500 Mc Clellan Avenue, Suite 350, Pennsauken, New Jersey
(address of principal executive offices)

08109
(zip code)

Registrant's telephone number, including area code: (609) 486-1777

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding twelve months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past ninety days. YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of
common stock as of the latest practicable date.

CLASS
Common Stock, \$.05 par value

14,339,565
Outstanding at June 2, 1992

PART I - FINANCIAL INFORMATION

Item 1 - FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
April 30, 1992 and October 31, 1991

ASSETS

	<u>1992</u> (Unaudited)	<u>1991</u> (Audited)
Current assets		
Cash	\$ 660,115	\$ 591,160
Accounts receivable	2,881,564	3,369,874
Prepaid expenses and other assets	<u>405,333</u>	<u>267,798</u>
Total current assets	<u>3,947,012</u>	<u>4,228,832</u>
Property and equipment, at cost		
Equipment and leasehold improvements	1,198,512	1,223,718
Less accumulated depreciation	<u>610,820</u>	<u>556,807</u>
Net property and equipment	<u>587,692</u>	<u>666,911</u>
Other assets		
Deposits	34,837	42,569
Cost in excess of net assets acquired (net of accumulated amortization of \$12,770 in 1992 and \$10,702 in 1991)	152,663	154,731
Patent costs (net of accumulated amortization of \$75,453 in 1992 and \$58,750 in 1991)	<u>389,947</u>	<u>410,128</u>
Total other assets	<u>577,447</u>	<u>507,428</u>
Total assets	<u>\$ 5,112,151</u>	<u>\$5,503,171</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	1992 (Unaudited)	1991 (Audited)
Current liabilities		
Current maturities of long term debt	\$ 38,193	\$ 43,001
Accounts payable and accrued expenses	163,331	306,702
Accrued payroll	461,101	522,920
Taxes other than income taxes	243,228	243,032
Income taxes payable	<u>76,425</u>	<u>50,000</u>
Total current liabilities	<u>982,278</u>	<u>1,165,655</u>
Long Term Debt	<u>147,046</u>	<u>173,321</u>
Shareholders' equity		
Common stock, \$.05 par value; authorized 40,000,000 shares in 1992 and 20,000,000 in 1991; issued and outstanding 14,653,565 in 1992 and 1991	732,678	732,678
Additional paid in capital	9,122,703	9,122,703
Accumulated deficit	<u>(5,809,733)</u>	<u>(5,560,865)</u>
	4,045,648	4,294,516
Less: treasury stock, 314,000 shares in 1992 and 1991, at cost	<u>62,821</u>	<u>62,821</u>
	3,982,827	4,231,695
Less: Common stock subscriptions receivable	<u>-</u>	<u>67,500</u>
	<u>3,982,827</u>	<u>4,164,195</u>
Total liabilities and shareholders' equity	<u>\$ 5,112,151</u>	<u>\$5,503,171</u>

RCN TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended April 30, 1992 and 1991
(UNAUDITED)

	Three months ended April 30,		Six months ended April 30,	
	1992	1991	1992	1991
Revenues	\$6,264,388	\$4,969,745	\$12,323,820	\$10,444,632
Direct costs	5,339,830	4,224,203	10,473,860	8,932,167
Gross profit	924,558	745,542	1,849,960	1,512,465
Operating expenses				
Selling	95,073	125,837	192,473	318,907
Administrative	864,018	1,140,160	1,873,913	2,332,942
Total operating expenses	959,091	1,265,997	2,066,386	2,651,849
Operating loss	(34,533)	(520,455)	(216,426)	(1,139,384)
Other income (expense)				
Interest (net)	3,306	19,267	2,623	39,713
Miscellaneous	2,607	(3,700)	(1,603)	(7,628)
Net other expense	5,913	15,567	1,020	32,085
Loss before income taxes	(28,620)	(504,888)	(215,406)	(1,107,299)
Income taxes	13,962	14,222	33,462	34,114
Net loss	(\$ 42,582)	(\$ 510,110)	(\$ 248,868)	(\$1,141,413)
Primary loss per share	(\$.00)	(\$.04)	(\$.02)	(\$.08)

ROM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
April 30, 1992
(Unaudited)

	<u>Common stock</u> <u>shares</u>	<u>amount</u>	<u>Additional</u> <u>paid-in</u> <u>capital</u>	<u>Accumulated</u> <u>deficit</u>	<u>Treasury</u> <u>stock</u>	<u>Common</u> <u>stock</u> <u>subscriptions</u> <u>receivable</u>
Balance, October 31, 1991	14,653,565	\$732,678	\$9,122,703	(\$5,560,865)	(\$ 62,821)	(\$ 67,500)
Common stock subscription receivable						67,500
Net loss April 30, 1992				[248,868]		
Balance, April 30, 1992	<u>14,653,565</u>	<u>\$732,678</u>	<u>\$9,122,703</u>	<u>(\$5,809,733)</u>	<u>(\$ 62,821)</u>	<u>(\$ -)</u>

ROM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
April 30, 1992 and 1991
(Unaudited)

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net loss	(\$ 248,868)	(\$1,141,413)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of excess cost over net assets acquired	2,068	2,068
Depreciation and amortization	97,600	81,679
Changes in operating assets and liabilities:		
Accounts receivable	488,310	1,770,264
Prepaid expenses and other assets	(137,535)	(17,162)
Accounts payable and accrued expenses	(143,371)	(56,643)
Accrued payroll	(61,819)	(490,331)
Taxes other than income taxes	196	(67,720)
Income taxes payable	26,425	26,200
	<u>271,874</u>	<u>1,248,355</u>
Net cash provided by operating activities	<u>23,006</u>	<u>106,942</u>
Cash flows from investing activities		
Proceeds from sale of equipment	3,700	-
Capital expenditures	(5,378)	(38,587)
Patent (expenditures) credits	3,477	(33,799)
Decrease in deposits	<u>7,733</u>	<u>(187)</u>
Net cash provided by (used in) investing activities	<u>9,532</u>	<u>(72,573)</u>
Cash flows from financing activities:		
Repayments of long term debt	(31,083)	(1,794)
Common stock subscription receivable	67,500	-
Registration costs	<u>-</u>	<u>(160)</u>
Net cash provided by financing activities	<u>36,417</u>	<u>(1,954)</u>
Net increase in cash	68,955	32,415
Cash at beginning of year	<u>591,160</u>	<u>1,488,794</u>
Cash at April 30,	<u>\$ 660,115</u>	<u>\$1,521,209</u>

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1992

1. Shareholders' Equity

(a) Authorized Common Shares

On April 23, 1992, the stockholders of the Company approved an amendment to the Company's Certificate of Incorporation ("Amendment") increasing the authorized shares of Common Stock from 20,000,000 to 40,000,000, par value \$.05. The Amendment was filed in May 1992.

(b) Warrants

The Company had 786,709 Class C Warrants outstanding at April 30, 1992 at an exercise price of \$8.50 per common share. These Warrants expire October 1, 1992.

(c) Incentive Stock Option Plans

On April 20, 1982, the stockholders of the Company at their annual meeting approved the RCM Technologies, Inc. 1982 Incentive Stock Option Plan ("1982 Plan") which authorizes the issuance not later than April 13, 1992 of up to 500,000 shares of Common Stock to officers, directors and key employees of the Company and its subsidiaries. The options are to contain such terms as may be determined by the Board of Directors except that the option term may not exceed ten years and the exercise price may not be less than 100% of the fair market value of the shares at the time of the grant. Options under the 1982 Plan are intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code.

On April 13, 1992, 20,000 unissued options from the 1982 Plan expired.

On February 27, 1986, the stockholders of the Company, at their annual meeting, approved the RCM Technologies, Inc. 1986 Incentive Stock Option Plan ("1986 Plan") which authorizes the issuance not later than October 30, 1995 of up to 300,000 shares of Common Stock to officers, directors and key employees of the Company and its subsidiaries. The 1986 Plan contains substantially the same terms as the 1982 Plan and the options are likewise intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1992

1. Shareholders' Equity

(c) Incentive Stock Option Plans continued

On April 23, 1992, the stockholders of the Company, at their annual meeting, approved the RCM Technologies, Inc. 1992 Incentive Stock Option Plan ("1992 Plan") which authorizes the issuance not later than February 13, 2002 of up to 500,000 shares of Common Stock to officers, directors and key employees of the Company and its subsidiaries. The 1992 Plan contains substantially the same terms as the 1982 and 1986 Plans and the options are likewise intended to be incentive stock options pursuant to Section 422A of the Internal Revenue Code.

As of April 30, 1992, 363,500 shares had been issued with 116,500 options outstanding under the 1982 Plan, 11,500 shares had been issued with 271,500 options outstanding under the 1986 Plan and no options were issued or outstanding under the 1992 Plan.

Certain data with respect to the issuance of the options under the Plans are summarized as follows:

	1982 PLAN		1986 PLAN	
	Shares	Price Range	Shares	Price Range
Outstanding at:				
October 31, 1991				
and				
April 30, 1992	<u>116,500</u>	<u>\$.5781 - \$.8594</u>	<u>271,500</u>	<u>\$.8594 - \$4.0625</u>

2. Loss Per Share

The Company uses the modified treasury stock method in computing earnings per share. For the six months ended April 30, 1992 and 1991, the weighted average number of shares outstanding were 14,339,565 and 14,315,815 respectively. Options and warrants have not been considered as the effect would be anti-dilutive.

Fully diluted earnings per share have not been presented because they are anti-dilutive.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1992

3. Note payable - bank

The cash needs of the Company primarily arise from the need to finance the payroll expenses for services provided to clients by Intertec personnel between the time the services are rendered and when Intertec is paid by its customers. These financing requirements are met by internally generated cash and by a line of credit from a commercial bank.

Intertec Design, Inc. has a \$1,350,000 revolving line of credit with Meritor Bank, collateralized by its accounts receivable. The line of credit is also guaranteed by the Company and RCM Industries Corporation. Accounts receivable eligible for financing under the line are those billings on which not more than sixty days have elapsed since the date of billing. In addition, advances secured by the accounts receivable of Dow Chemical and Sikorsky Aircraft may not exceed \$487,500. The interest rate charged is 2% above the prime rate of the Bank. The effective rate of interest at April 30, 1992 was 8.5% and the loan balance was zero.

The term of the line of credit is for a period of two years. Both Intertec Design, Inc. and RCM Technologies, Inc. are required to meet certain objectives with respect to financial ratios and earnings. Advances on the line of credit are restricted to the sole use of Intertec Design, Inc. and any advances to the parent company or RCM Industries Corporation must have prior approval from the bank.

ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of operations

The unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

1992 vs 1991

Results for the period were substantially improved over those for the six months ended April 30, 1991, but operations still resulted in a net loss of \$248,868 for the period. The Company identified three main problem areas which affected results in 1991: termination of IDI Services Division clients who had generated excessive worker's compensation claims, a decline in sales to Sikorsky Aircraft, a major customer, and a general decline in sales as the economy constricted during the recession. Two of these three areas have shown improvement and management believes that the third area is in the process of turning around.

Sales for Intertec Design, Inc., the Company's operating subsidiary, increased by \$1,879,188, or approximately 18.0% from sales for the six months ended April 30, 1991.

The revenue loss associated with escalating worker's compensation claims in California for the IDI Services Division, the first problem area, has reversed itself and revenues for that sector are expected to grow for the remainder of fiscal 1992. Although sales for this division were approximately the same for both years, the 1991 sales occurred while the Company was working to replace client relationships that had been terminated due to excessive worker's compensation claims. In 1992, in contrast, the replacement of those relationships has been completed and the Company is now working to expand a steady and profitable client base.

As expected, the sales for IDI Services remained relatively static during the second quarter of 1992 when compared to the first quarter of 1992. Year to date sales figures are approximately \$272,000 ahead of the first six months of 1991 with \$222,549 of this increase occurring during the second quarter. Many clients of that division are now designing items that will be sold during the holiday season at the end of 1992. Sales are expected to grow for the third and fourth quarters of the fiscal year when those clients begin the sales, production and shipping cycles for those holiday items. Anticipated production cycles are expected to commence by the end of May and continue through June depending on the client involved.

The award by the Federal Government of the Light Helicopter program to Sikorsky Aircraft in April of 1991 has led to an increase in the Company's sales to Sikorsky of approximately \$934,407 during the first six months. The decline in sales to Sikorsky during fiscal year 1991 represented the second of the main problem areas for the Company last year and has now corrected itself. The Company expects to receive modest manpower increases for Sikorsky during the remainder of the 1992 fiscal year.

ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of operations (continued)

1992 vs 1991 (continued)

In 1991, general economic conditions contributed greatly to the decline in the Company's overall sales. The Company has experienced an increase in sales in recent months and believes the next six months will bring continued sales growth if the nation's economy continues to improve. The Company expects the major portion of this growth to emanate from its IDI Services Division located in California due to anticipated sales activity as described above.

Cost of sales increased by \$1,541,693 or approximately 17.3% from the six months ended April 30, 1991 due to the increased sales.

Gross profit increased by \$337,495 or approximately 22.3% from the previous six months ended April 30, 1991.

Operating costs decreased by \$585,463 or approximately 22.1% from the six months ended April 30, 1991. This decrease is directly attributable to the cost cutting measures instituted during fiscal 1991. In fiscal 1991, the Company set out to cut operating expenses by approximately \$600,000 on an annualized basis. These cuts were in response to the large decrease in sales which were sustained during fiscal 1991 and were accomplished by closing marginal profit centers as well as decreasing the number of personnel in the remaining profit centers. Included in the \$585,463 decrease in operating costs is a credit in the amount of \$124,047 resulting from a decrease in the Company's accounts receivable allowance account. This credit resulted from the collection of past due accounts and also from accounts which the Company fully expects to collect.

Net other income decreased by \$31,065, or approximately 96.8% from the six months ended April 30, 1991. Interest income decreased by \$37,090, while miscellaneous expense decreased by \$6,025 from the six months ended April 30, 1991. At April 30, 1992, the Company no longer had funds invested in short term securities.

Income tax expense remained relatively the same and decreased by \$652 or approximately 1.9% from the six months ended April 30, 1991.

The net loss, which amounted to \$248,868 and \$1,141,413 in 1992 and 1991 respectively, decreased by \$892,545 or approximately 78.2% from the six months ended April 30, 1991 reflecting the factors discussed above.

1991 vs 1990

Total sales decreased by \$2,533,837 or approximately 19.5% from sales from the six months ended April 30, 1990. All of this decrease was sustained by Intertec Design, Inc.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of operations (continued)

1991 vs 1990 (continued)

General economic conditions during the six months ended April 30, 1991, contributed greatly to Intertec Design, Inc.'s overall decline in sales. The primary reason for the decrease in sales was the decrease in orders from the federal government on Sikorsky Aircraft's BlackHawk and SeaHawk helicopter programs. Sales to Sikorsky Aircraft decreased by \$1,273,309, and by January 31, 1991, personnel assigned to the Sikorsky orders fell approximately 42%.

In April 1991, the federal government had awarded its contract on its Light Helicopter program, which is to replace the Apache helicopter, to a joint venture composed of Sikorsky Aircraft and Boeing. In order to maintain its competitive edge, the Company approved the purchase of an IBM computer-aided design drafting system. This system, which cost approximately \$202,000, is being used for the design of the Light Helicopters. Due to the Light Helicopter Program and the addition of the CAD system, the Company began to receive manpower increases from Sikorsky in April 1991.

Another reason for the sales decrease was the increase in the amount of worker's compensation claims within the temporary service division. In October 1990, this division experienced an increase in insurance premiums of 168% due to a large number of claims filed in California. As a result of that substantial increase, the Company identified clients using the Company's employees that were generating disproportionately large numbers of worker's compensation claims and terminated business with those clients during October/November 1990. A resultant loss of sales of \$1,170,602 followed the termination of business with those clients.

Sales to Dow Corning and Dow Chemical decreased by \$110,171. Sales for various smaller clients increased by \$20,249.

Cost of sales decreased by \$1,937,610 or approximately 17.8% from the six months ended April 30, 1990 due to the decreased sales.

Gross profit decreased by \$596,227 or approximately 28.3% from the previous six months ended April 30, 1990.

Operating costs increased by \$218,743 or approximately 9% from the six months ended April 30, 1990. Costs for new offices within Intertec Design, Inc. not in existence at April 30, 1990 amounted to \$185,047. One office which cost \$104,476 was closed due to insufficient sales. By comparison, the cost for the offices that existed at April 30, 1990 and 1991 actually decreased by \$90,135. Additional costs were also generated by the Annual Stockholders' Meeting, held in December 1990 instead of the summer months. The costs of the meeting, with the corresponding reports and mailings, amounted to approximately \$47,453. Further, costs for RCM Industries Corp. amounted to \$421,121 in 1991 versus \$344,743 in 1990.

ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Results of operations (continued)

1991 vs 1990 (continued)

Net other income increased by \$27,280, or approximately 567.7% from the six months ended April 30, 1990. Interest income increased by \$8,955 due to lower interest rates, while miscellaneous expense decreased by \$36,235 from the six months ended April 30, 1990. The Company had approximately \$1 million invested in short term securities.

Income taxes increased by \$12,077 or approximately 54.8% from the six months ended April 30, 1990. The Company had increased its state income tax liability estimates to account for the termination of loss carry-forwards on the state level which are much shorter in duration than Federal loss carry-forward periods.

The loss from discontinued operations decreased by \$14,300 from April 30, 1990. The Company's asbestos removal division, Marine & Mechanical Services Corp., was closed during fiscal 1990.

The net loss, which amounted to \$1,141,413 and \$355,946 in 1991 and 1990 respectively, increased by \$785,467 or approximately 220.6% from the six months ended April 30, 1990 reflecting the factors discussed above.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONSLiquidity and capital resources

Key indicators of liquidity, balance sheet strength and capital resources are as shown in the following table:

	April 30, 1992	October 31, 1991
Current assets	\$ 3,947,012	\$ 4,228,832
Current liabilities	982,278	1,165,655
Working capital	<u>\$ 2,964,734</u>	<u>\$ 3,063,177</u>
Current ratio	4.02 to 1	3.63 to 1
Borrowed capital	\$ 185,239	\$ 216,322
Shareholders' equity	\$ 3,982,827	\$ 4,164,195
Borrowed Capital/ Shareholders' equity	4.66%	5.19%
Common shares outstanding	14,339,565	14,339,565
Book value per common share	\$.28	\$.29

The cash needs of the Company primarily arise from the need to finance the payroll expenses for services provided to clients by Intertec personnel between the time the services are rendered and when Intertec is paid by its customers. These financing requirements are met by internally generated cash and by a line of credit from a commercial bank.

Intertec Design, Inc. has a \$1,350,000 revolving line of credit with Meritor Bank, collateralized by its accounts receivable. The line of credit is also guaranteed by the Company and RCM Industries Corporation. Accounts receivable eligible for financing under the line are those billings on which not more than sixty days have elapsed since the date of billing. In addition, advances secured by the accounts receivable of Dow Chemical and Sikorsky Aircraft may not exceed \$487,500. The interest rate charged is 2% above the prime rate of the Bank. The effective rate of interest at April 30, 1992 was 8.5% and the loan balance was zero.

The term of the line of credit is for a period of two years. Both Intertec Design, Inc. and RCM Technologies, Inc. are required to meet certain objectives with respect to financial ratios and earnings. Advances on the line of credit are restricted to the sole use of Intertec Design, Inc. and any advances to the parent company or RCM Industries Corporation must have prior approval from the bank.

The Company believes that the line of credit, together with stricter controls on receivables and the cuts in overhead costs made during fiscal 1991, will be more than adequate to meet any short term or long term cash liquidity needs with respect to the operations of Intertec Design, Inc. There are no plans at present for material capital expenditure commitments for Intertec within the near future.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Liquidity and capital resources (continued)

RCM Technologies, Inc. and RCM Industries Corporation face possible liquidity problems because of the restrictions imposed by the Bank on advances from Intertec to these two companies. The two RCM companies have \$298,000 available for their operations during the second half of fiscal 1992. Neither RCM Technologies, Inc. nor RCM Industries Corporation currently generate any revenues or cash to support their operations. RCM Technologies is responsible for the payment of certain general and administrative expenses which cannot be funded by Intertec. The Company believes that the available cash will be sufficient to pay for these expenses during 1992.

The liquidity needs of RCM Industries Corporation will not be fully known until completion by United Engineers & Constructors of the comprehensive technological, economic and commercial application evaluation of System "99" commissioned by the Company. The results of the study are not expected to be available until the end of June 1992. The cost of the study will be paid from the unrestricted cash available to RCM Industries Corporation. The study conclusions will help the Company determine whether to discontinue the operations of RCM Industries Corporation or go forward with the development and sale of System "99".

The restrictions on advances from Intertec Design, Inc. imposed by the Bank means that the Company does not possess the financial resources required to bring the system to market and any additional development of System "99" will require a sizable capital infusion into the Company from an outside source. Although there are no current plans for raising additional funds, the Company is considering several possible sources of funds, including loans and the sale of additional equity in the Company. The Company has received a tentative proposal from GE Capital Services to provide the necessary financing for the installation of System "99". The proposal is conditioned on the outcome of the study. The Company has also approached several coal workers' unions proposing that the unions' pension funds provide low cost loans to install System "99" in return for an agreement by the utility purchasing the system to use coal from mines designated by the pension funds. Possible equity partners for the installation of System "99" include utilities, coal producers and construction contractors. The Company may also consider raising additional capital through the sale of the Company's common stock. The Company feels reasonably confident in its ability to raise the necessary funds for System "99" in the event of a favorable report from United Engineers.

PART II.
OTHER INFORMATION

Item 1. Legal proceedings.

None

Item 4. Submission of matters to a vote of security holders

The Company held its Annual Meeting of Stockholders on April 23, 1992. The following items were voted on at the meeting:

- A. Approval of the adoption of the Company's 1992 Incentive Stock Option Plan. The Plan authorizes the granting of up to 500,000 incentive stock options to key employees of the Company. Voting results were as follows:

For: 9,574,353 Against: 1,123,415 Abstain: 140,850

- B. Proposal to increase the number of authorized shares of common stock from 20,000,000 shares to 40,000,000 shares.

For: 9,314,096 Against: 1,411,290 Abstain: 113,232

Item 5. Other information

None

Item 6. Exhibits and reports on form 10-Q

(a) Exhibits

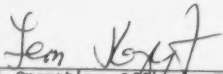
- (3) (a) (1) Certificate of Amendment of Articles of Incorporation
(11) Computation of loss per share

RCM TECHNOLOGIES, INC.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

RCM TECHNOLOGIES, INC.

DATE: June 2, 1992


Chief Operating Officer, President,
Chief Financial Officer & Treasurer

. EXHIBIT 3 (a) (1)

**CERTIFICATE OF AMENDMENT
OF
ARTICLES OF INCORPORATION
OF RCM TECHNOLOGIES, INC.**

RCM TECHNOLOGIES, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Nevada (the "Corporation"), DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation duly adopted resolutions setting forth a proposed amendment to the Articles of Incorporation of the Corporation, declaring said amendment to be advisable and calling for the submission of said amendment to the stockholders of the Corporation for their approval at the Annual Meeting of Stockholders held on April 23, 1992, and stating that such amendment will be effective only after approval thereof by the holders of a majority of the outstanding shares of Common Stock, \$.05 par value, of the Corporation.

SECOND: That thereafter, pursuant to a resolution of the Board of Directors of the Corporation, said amendment was submitted to the holders of the Common Stock of the Corporation, and such holders, by a majority vote at the Annual Meeting of Stockholders held on April 23, 1992 in accordance with the General Corporation Law of the State of Nevada, approved and agreed to the adoption of the following resolution to amend the Articles of Incorporation of the Corporation:

RESOLVED, that the Articles of Incorporation of the Corporation be, and they hereby are, amended by deleting in its entirety the present Article FOURTH and substituting in lieu thereof the following new Article FOURTH:

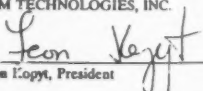
"FOURTH: The amount of the total authorized capital stock of this corporation is Two Million Dollars (\$2,000,000) consisting of Forty Million (40,000,000) shares of the par value of \$.05 (five cents) each.

THIRD: That said amendment was duly adopted in accordance with the provisions of Sections 78.385 and 78.390 of the General Corporation Law of the State of Nevada, and that the amendment was adopted, ratified and approved by more than a majority of the shares outstanding of this corporation, there being 14,339,565 shares of the corporation issued and outstanding and the resolution was approved by 9,314,096 shares voted on April 23, 1992.

IN WITNESS WHEREOF, said RCM TECHNOLOGIES, INC. has caused this certificate to be signed by Leon Kopyt, its President, and attested by Angelo A. Coronato, its Secretary, this day of April, 1992.

RCM TECHNOLOGIES, INC.

BY:


Leon Kopyt, President

ATTEST:

BY:


Angelo A. Coronato
Secretary

EXHIBIT 11

RCM TECHNOLOGIES, INC.
AND SUBSIDIARIES
COMPUTATION OF LOSS PER SHARE

	<u>THREE MONTHS ENDED APRIL 30</u>		<u>SIX MONTHS ENDED APRIL 30</u>	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Net Income (Loss)	<u>(\$ 42,582)</u>	<u>(\$ 519,110)</u>	<u>(\$ 248,868)</u>	<u>(\$ 1,141,413)</u>
Weighted Average Number of Shares Outstanding During the Period	14,339,565	14,315,815	14,339,565	14,315,815
Common Stock Equivalents	(a)	(a)	(a)	(a)
	<u>14,339,565</u>	<u>14,315,815</u>	<u>14,339,565</u>	<u>14,315,815</u>
Loss Per Share	<u>(\$.00)</u>	<u>(\$.04)</u>	<u>(\$.02)</u>	<u>(\$.08)</u>

(a) Anti-dilutive

(b) Fully Diluted earnings per share have not
been fully presented as they are Anti-Dilutive.







